AGRICULTURAL CREDIT

IN GERMANY

By Walter Bauer

Farm Credit Administration

Washington, D. C.

F. F. Hill, *Governor*

E. A. Stokdyk, *Deputy Governor, In Charge of Research*

Economic and Credit Research Division

E. C. Johnson, *Chief*

✦

The Economic and Credit Research Division is engaged in economic research designed to aid the credit units and offices of the Farm Credit Administration. Independent research is conducted by its staff but many projects are in cooperation with the Farm Credit districts where research is carried on under the direction of a statistician or director of research. In some districts agricultural experiment stations have participated in studies of farm credit problems. While research in the division deals primarily with operating problems, it is recognized that the results of some studies may be of general interest. Such results will be published by the Farm Credit Administration in a series of bulletins prepared in the Economic and Credit Research Division.—E. C. Johnson.

✦

Copies of this publication may be obtained upon request, while a supply is available, from the

Director of Information and Extension, Farm Credit Administration, Washington, D. C.

FARM CREDIT ADMINISTRATION
Economic and Credit Research Division
WASHINGTON, D. C.

Agricultural Credit In Germany

By
Walter Bauer
Senior Agricultural Economist

JUNE 1939

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON: 1940

For sale by the Superintendent of Documents, Washington, D. C. - - - - - - - - - - - - Price 15 cents

Contents

Part II

SOME TECHNICAL ASPECTS OF THE BASIC FARM MORTGAGE CREDIT SYSTEM

Preface

POSTWAR changes in the structure of world agriculture as well as the farm credit implications of the depression have resulted in new approaches to the problem of adequately financing the farmer and have brought about in practically all countries the creation of new credit organizations. However, since 1913 when the reports of two special American commissions for the study of farm credit facilities in foreign countries were submitted to the United States Senate,* no basic and comprehensive survey has been made in this field.

The collection of material on phases of foreign agricultural credit most pertinent to particular operating problems confronting the Farm Credit Administration yields incidentally much general information which may prove of interest to students of agricultural finance. Accordingly, the Farm Credit Administration has decided to make this information accessible in reports designed to give a descriptive analysis of the organization, operation, and economic aspects of agricultural credit systems in foreign countries.

The present report on Germany emphasizes the accumulated farm mortgage experience of that country and offers a point of departure for concentrated study of special aspects. In this connection, credit is due to Miss Elizabeth Ziegler, former associate economist in the Farm Credit Administration. Considerable portions of her report on farm mortgage credit in Germany, prepared three years ago, have been incorporated here as revised sections. The collaboration of Miss Julia L. Wooster, research assistant, in editing and preparing the manuscript for publication is gratefully acknowledged. Dr. William H. Moore, senior economist, has read the manuscript and made a great number of much appreciated suggestions.

Owing to space limitations, no attempt has been made to substantiate all factual statements and figures presented in the text by footnote references to the source and page thereof. However, to facilitate the tracing and further elaboration of these data, the publications used are listed in the bibliography. Again with the object of facilitating further research in the original sources, and particularly since English versions do not always agree, the translations of names of institutions and many technical terms have been supplemented by the German designation in parentheses.

**Agricultural Cooperation and Rural Credit in Europe* Information and evidence secured by the American Commission and the United States Commission. Senate Document No. 214, Sixty-third Congress, First Session, 1913.

FIGURE 1.—Agricultural Economic Regions

Part I

Economic Aspects of the Agricultural Credit System

Sources of Farm Mortgage Credit

SOURCES of farm mortgage credit in Germany are classified in various ways. A common distinction made in literature on the subject is that between "organized" mortgage credit institutions which function wholly or in part for the specific purpose of making capital available to agriculture, mostly by issue of farm mortgage bonds, and "not organized" credit sources, which—private individuals included—grant mortgage credit as a branch line of their allied business for the purpose of long-term investment. In the following, these groups are referred to as "specialized" and "nonspecialized" sources.

Another classification is based on whether credit is granted by institutional or noninstitutional sources. Finally, mortgage credit is supplied by private lending agencies and individuals as well as by the so-called "öffentlich-rechtliche Gläubiger." This term has no exact English synonym; literally it means "creditors having standing under the public law" and connotes a public or even quasi-governmental character.

Comparative Importance of General Sources

The relative importance of these various groups may be compared as follows:

Description of group:	*Percentage share in total farm mortgage credit*	
A. Specialized sources	37. 5	100
Nonspecialized sources	62. 5	
B. Institutional credit	52. 7	100
Noninstitutional credit	47. 3	
C. Private sources	54. 9	100
Public agencies	45. 1	

Table 1.—Mortgage and Long-Term Credit on Farm Real Estate December 31, 1937

Source of credit	Loans outstanding	Percentage of share in total debt	Status of specialization
	Million mark	*Percent*	
Noninstitutional:			
Private individuals	3, 276	33. 9	Nonspecialized.
Capitalized annuities [1]	900	9. 3	Do.
Agricultural cooperatives	400	4. 1	Do.
Total	4, 576	47. 3	
Institutional:			
Private—			
Real estate credit institutions	713	7. 4	Specialized (mortgage bonds).
Life insurance companies	21	. 2	Nonspecialized.
Public—			
Real estate credit institutions	2, 918	30. 1	Specialized (mostly mortgage bonds).
Savings banks	1, 176	12. 2	Nonspecialized.
Life insurance institutions	120	1. 2	Do.
Social insurance agencies	156	1. 6	Do.
Total	5, 104	52. 7	
Grand total	9, 680	100. 0	

Source: Adapted from Reply to F. C. A. and U. S. D. A. Joint Survey of Agricultural Indebtedness, March 1, 1938, made by the Deutsche Rentenbank-Kreditanstalt in cooperation with the Gemeinschaftsgruppe Deutscher Hypothekenbanken and the Reichsverband der Deutschen Landwirtschaftlichen Genossenschaften-Raiffeisen.

[1] In many instances German farms are encumbered by annuities payable in liquidation of feudal privileges (Renten) or to the retired owner of the farm (Altenteile). Although these encumbrances are not mortgage debts in the strict meaning of the term, they are usually capitalized and included with the mortgage indebtedness when the long-term debt burden is considered. Altenteil annuities constitute by far the major portion of this indebtedness. A detailed discussion of the Altenteil situation may be found in an article by Henry W. Spiegel, entitled *The Altenteil: German Farmers' Old Age Security* (Rural Sociology, Vol. 4, No. 2, June, 1939.

The importance of the various institutional sources of mortgage credit, by regions, for the different farm sizes is shown in table 2.

How much of the agricultural mortgage debt consists of second and junior mortgages cannot be ascertained with any degree of accuracy. As institutional mortgage credit is principally based on first mortgage security, it follows that most of the junior mortgage credit is supplied by private individuals or corporations.[1]

Commercial banks are not listed in tables 1 and 2. Unlike in the United States, they do not make farm mortgage loans.

The most important group of farm mortgage credit institutions consists of 15 regional mortgage credit associations (Landschaften [2] and Landschaft-like associations), four regional Landschaft banks

[1] In East Germany, for instance, junior mortgage credit from specialized sources accounted before a debt-adjustment and refinancing action, which was completed in March 1937, for 37 percent of the total, while that from nonspecialized sources was 59 percent. The remaining 4 percent consisted of mortgages held by the public authorities (öffentliche Hand). Furthermore, of the mortgage debt of East Germany (59 percent of the total indebtedness), 34 percent consisted of first mortgages as against 25 percent for junior mortgages. (For details, see Drescher, Leo, *Entschuldung der Ostdeutschen Landwirtschaft*, Berlin, 1938, pp. 36 and 40 of the statistical annex.) These figures cannot be generalized for the country as a whole because in East Germany, indebtedness was particularly heavy and the volume of junior mortgages also high. Elsewhere in Germany, the percentage of junior mortgages is likely to be somewhat lower.

[2] The word "Landschaft"—in its most common use equivalent to "landscape"—would also stand in its other literal meaning for any guildlike body representing the agricultural interests of a region. As the landowners of feudal times, that is, the nobles of a region, adopted this concept for giving a name to their mortgage-credit associations, it has become in the course of time a well-established term denoting exclusively agricultural mortgage credit associations of the specific type and organization which has developed out of these early credit institutions.

TABLE 2.—SOURCES OF INSTITUTIONAL FARM MORTGAGE CREDIT, JULY 1, 1937

Region	Source of credit	Percentage of total institutional credit		
		Farms having less than 18.5 acres	Farms having 18.5–309 acres	Farms having more than 309 acres
		Percent	Percent	Percent
East Germany	Real estate credit institutions		65	73
	Savings banks		23	9
	Insurance institutions		4	14
	Unspecified		8	4
Central Germany	Real estate credit institutions		68	81
	Savings banks		19	4
	Insurance institutions		6	9
	Unspecified		7	6
North-West Germany	Real estate credit institutions		57	71
	Savings banks		36	12
	Insurance institutions		3	13
	Unspecified		4	4
West-South Germany	Real estate credit institutions	32	53	
	Savings banks	52	32	
	Insurance institutions	3	3	
	Unspecified	13	12	

Source: *Die Kreditlage der deutschen Landwirtschaft im Wirtschaftsjahr 1936/37*, Deutsche Rentenbank-Kreditanstalt, Berlin, 1938. (Sample study based on the records of 12,250 farms.)

Weighted national average for all sample farms:	Percent
Real estate credit institutions	64
Savings banks	23
Insurance institutions	6
Unspecified	7

granting junior mortgage credit and 15 state banks, state-owned credit agencies, and provincial banks, which, in many areas where Landschaften do not exist, are the most important farm mortgage lenders, although frequently they carry on general commercial banking business. The savings banks, numbering around 2,500 with approximately 11,400 branches, constitute the second important source of institutional mortgage credit. In the third group there are at present 25 private mortgage banks active as agricultural lenders, four of which are owned by public institutions while one—the Agricultural Bank of Bavaria (Bayerische Landwirtschaftsbank)—is the only private mortgage bank in Germany having the form of a cooperative society. The organizational aspects as well as the lending policies of these main groups of institutional mortgage credit will be discussed in Part II of this report.

Each of the groups of lending agencies has a central organization whose functions vary; but the centrals listed below are alike in that they do not make loans directly to farmers.

Central-Landschaft für die Preussischen Staaten (Prussian Central Landschaft).

Central-Landschafts-Bank (Central Landschaft Bank).

Deutsche Landesbankenzentrale A. G. (German State and Provincial Banks Central, Inc.).
Deutsche Girozentrale-Deutsche Kommunalbank (Bank of the German Federation of Savings Banks and National Clearing Center).
Gemeinschaftsgruppe Deutscher Hypothekenbanken (Union of German Mortgage Banks).

However, only 6 of the 25 private mortgage banks having farm mortgage business belong to the Union.[3] Nevertheless, their loans accounted in 1937 for 46.0 percent of the total farm mortgage loans made by all private mortgage banks and for 37.6 percent of the total urban loans. Also, only 9 of the 15 regional Landschaften are affiliated with the Central Landschaft, but they accounted at the end of 1933 for approximately 90 percent of the total farm mortgage loans made by all Landschaften.

Interrelationships Between Specific Sources

The charts below are intended to clarify as far as possible the interrelationship of the many agencies in the farm mortgage credit field and the channels through which funds are distributed. In studying the charts, one should not lose sight of differences in the relative importance of the various agencies. The main groups, that is, Landschaften, state and provincial banks, private mortgage banks and savings banks together hold 49.7 percent of the total mortgage debt.

The individual farm mortgagor usually deals with but one institutional source at a time and since all such sources insist on first mortgage security, not many borrowers are likely to have mortgage loans from two different agencies.

Chart I serves primarily to show the actual and possible relationships between the basic sources of mortgage credit and the Central Agricultural Bank (Rentenbank-Kreditanstalt) which does not lend directly to farmers in competition with other banks, but rather provides funds to the ultimate borrower by making loans to designated credit agencies whenever and wherever these are short of loanable funds.[4] Its lending activity is governed more by national agricultural policies than by the desire to make maximum profits.

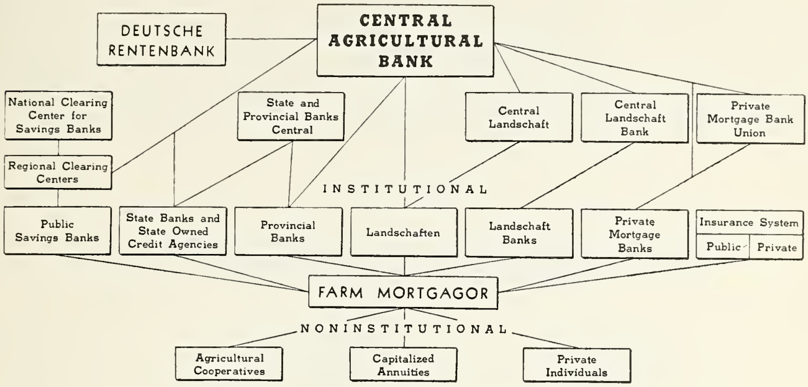
The Central Agricultural Bank is, however, closely tied to the Deutsche Rentenbank (for discussion, see pages 28–29); president and executive directors of the two institutions are the same. Although there is strict separation as far as finances proper are concerned, the possibilities for financial interplay between the two institutions are

[3] For details regarding other private mortgage bank groups, see page 62, footnote 4.

[4] Details regarding the resources and organization of the Central Agricultural Bank are discussed on pp. 31–32.

CHART I.

SOURCES OF FARM MORTGAGE CREDIT



considerable. In several instances, described later, the Rentenbank has supplied agriculture with funds through the Central Agricultural Bank.

Neither the National Clearing Center for Savings Banks (Deutsche Girozentrale-Deutsche Kommunalbank) nor the State and Provincial Banks Central, Inc. (Deutsche Landesbankenzentrale A. G.) act as agents for the Central Agricultural Bank in the distribution of mortgage credit because operating through the regional clearing centers of the savings bank system or with the individual state and provincial banks is less involved.

The savings banks rely, of course, on their deposits for loanable funds. In case one savings bank does not have sufficient funds, it may be aided by other savings banks in the same region through the regional clearing center (Girozentrale) of which there are 21 in all. The regional clearing centers assist one another through the National Clearing Center (Deutsche Girozentrale) and if the latter should not be able to supply funds, the regional clearing centers apply to the Central Agricultural Bank. State and provincial banks as well as the Landschaften and private mortgage banks procure loanable funds for agricultural mortgage credit through bond issues. Therefore, their central organizations do not engage in the transfer of mortgage credit funds between member institutions.

In dealing with the Landschaften and private mortgage banks the Central Agricultural Bank maintains direct relations with those institutions which are not members of the Central Landschaft or the Private Mortgage Bank Union.

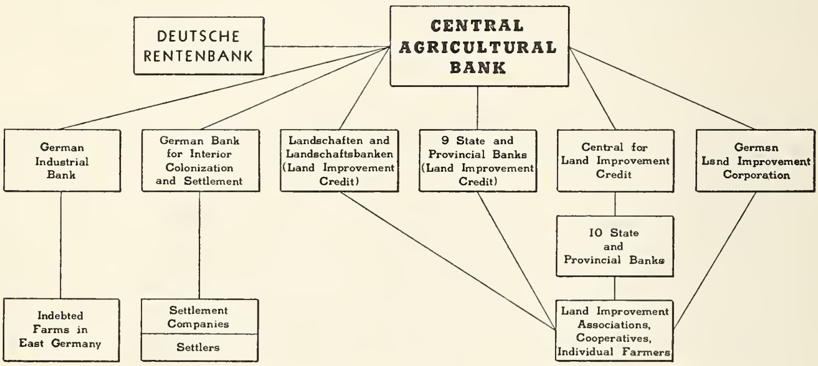
The set-up for ordinary mortgage credit to the farmer as illustrated in chart I is supplemented by several agencies making special mortgage loans and other long-term loans for purposes of general land

improvement.[5] The interrelation of these sources of special long-term credit is shown in chart II.

The German Industrial Bank (Deutsche Industriebank, formerly Bank für Deutsche Industrie-Obligationen) ordinarily does not lend to agriculture. A law of March 31, 1931, entrusted it with the task of refinancing overindebted farms in East Germany through mortgage loans. This particular relief action was completed in March 1937.[6]

CHART II.

SOURCES OF SPECIAL FARM MORTGAGE AND LONG-TERM CREDIT



The German Bank for Interior Colonization and Settlement (Deutsche Siedlungsbank) was created in 1931 for the purpose of coordinating the financing of private colonization companies which in some instances received loans from five or six different sources. Today the Reich Government has acquired all the shares of the 32 authorized colonization companies throughout Germany so that they have become public institutions though still retain the legal form of private enterprises. Capital and loanable funds of the Colonization Bank consist of budget appropriations by the Prussian and Reich Governments. The credits of the Colonization Bank are so-called interim credits (Zwischenkredite) granted to the companies for a period of 2 years. Ultimately they are to be repayed with loans from the Prussian Rent-Charge Bank (Preussische Landesrentenbank), now an agency of the Reich Government, which is to obtain

[5] This type of credit includes the financing of projects such as drainage systems, concentration of dwarf holdings into farms, reclamation of swamps and other waste land, building of country roads, rural electrification, construction of silos, and other agricultural improvements in the interest of national economy and public welfare.

[6] For details regarding the refinancing and debt-adjustment work of the Industrial Bank, see pp. 34–36.

the required funds by issue of government-guaranteed mortgage bonds.[7]

There is considerable variation in the uses of land-improvement loans (Meliorationskredite) and in the status of the borrowers. The Landschaften and Landschaft banks, for example, lend exclusively to land-improvement associations, while some of the state and provincial banks do not insist on group liability but lend to individual farmers. In fact, many land-improvement loans are in no way different from ordinary mortgage loans except for the fact that they are given for specific purposes. In some instances where group action in land improvement is of particular public interest, loans to the group are guaranteed by the local or the district government.[8]

The Central for Land Improvement Credit (Zentrale für Bodenkulturkredit), established in 1929, serves 10 state and provincial banks as a source of additional funds for amelioration credit. The Central finances itself by bond issues, proceeds of which are distributed to the member institutions. The Central Agricultural Bank owns 55.55 percent of the capital of this institution.

The German Land Improvement Corporation (Deutsche Bodenkultur A. G.) was founded in 1923 by a consortium of public institutions to obtain funds for land-improvement credit in the foreign capital market. Since 1924 when the Reich acquired all the shares, the Corporation has been distributing the public funds appropriated for land improvement. In Prussia the Corporation lends directly to land-improvement associations, elsewhere the state governments frequently act as intermediaries and guarantors.

Relative Importance of the Domestic and Foreign Capital Markets as Sources of Farm Mortgage Credit

Although the amount of foreign capital invested in German agriculture is not exactly known, it is safe to say that foreign sources were not drawn upon to any considerable extent before the war as the domestic market for farm mortgage bonds easily absorbed most issues. Owing to the scarcity of capital during the period of post-

[7] Settlers who borrow from the colonization companies are required to put up at least 10 percent of the value of the newly created farm. On the loan secured by mortgage no interest is payable during the first year. Interest and amortization result in an annuity of 4 percent such that, on the average, loans for the creation of new farms will be fully repaid in approximately 66.5 years. Land is made available by the splitting up of large estates and improvement of waste land. Settlers also receive so-called installation credits (Einrichtungskredite) not to exceed 3,000 mark on which no interest is payable usually for 5 years or, in the case of marsh and waste-land colonization, for 10 years. Thereafter installation credits are to be repaid by a 4-percent annuity for amortization and interest. Many other interesting aspects of settlement financing cannot be discussed within the scope of this report.

[8] The terms of land-improvement loans vary also. They may or may not be secured by mortgages. As a rule, their duration is from 25 to 31 years, interest from 3 to 5 percent. In cases where the interest exceeds 3 percent, the Reich Government pays the difference. In addition to interest, borrowers must pay from 0.25 to 0.5 percent annually as a contribution to the administrative expenses of the lending agency. Amortization is 2 percent annually.

inflation reconstruction, the Central Agricultural Bank, which is not allowed to make domestic bond issues in competition with the basic mortgage credit institutions, placed four issues totaling $131,000,000 in the United States from 1925 to 1928. Proceeds were distributed to the basic farm mortgage credit institutions. At the end of 1937 one-third of this amount was still outstanding. Separate action taken in 1928 on behalf of the state and provincial banks by their central organization (Deutsche Landesbankenzentrale A. G.) raised $25,000,000 from the United States, approximately one-fifth of which was still outstanding at the end of 1937. The proceeds from these five bond issues were used mainly to convert the considerable short-term indebtedness of German agriculture into long-term amortization loans, part of which were secured by second mortgages. Also, some of the basic credit institutions borrowed independently in the American capital market in 1927, e. g., the Landschaft of Silesia ($6,000,000), the Landschaft Bank of East Prussia ($7,000,000) and the Hanover Provincial Bank (Hannoversche Landeskreditanstalt, $4,000,000). In the aggregate, American capital for mortgage credit to German agriculture amounted to approximately $173,000,000 or 726,600,000 mark. In 1930 the Central Agricultural Bank floated a bond issue of 25,000,000 Swiss francs ($4,845,500) in Switzerland and the Netherlands, 17.5 million francs of which were still outstanding at the end of 1937.

From 1926 to 1928, England, the Netherlands, Sweden, and Switzerland also furnished some capital to German agriculture through several private mortgage banks which sold German mortgage bonds to foreign banking institutions instead of issuing bonds in the foreign country as was done in the case of the American loans. Although these credits were not exceedingly large, they bridged at various times those critical moments when agriculture was in dire need of funds and the domestic capital market not in a position to absorb additional farm mortgage bonds.

The relative importance of foreign loans during the reconstruction years is shown in table 3.

Table 3.—Real Estate Loans Made by Mortgage Credit Agencies, Savings Banks, and Insurance Institutions, 1925–29

Year	Total annual increase	Foreign credit	Foreign credit as a percentage of total increase
	Million mark	*Million mark*	*Percent*
1925	552.0	68.0	12.3
1926	977.0	52.0	5.3
1927	691.2	432.1	62.5
1928	740.6	218.0	29.4
1929	439.1		

Source: von Bissing, W. M., *Der Realkredit der deutschen Landwirtschaft*, Berlin und Leipzig, 1930, p. 195.

Economic History and Background of the Farm Mortgage Credit System

FARM loan agencies were organized in various parts of Germany during the century which preceded achievement of political unity of the Reich in 1871. But even after creation of the Reich, most of the states composing it persisted in regulating economic matters and continued to set up economic institutions in their own particular way. As a consequence, not only the agricultural pattern of Germany but historical developments as well contributed to making the German farm mortgage credit system a rather intricate one. Nevertheless, if the array of special institutions and the maze of organizational peculiarities are disregarded, the following rough outline is recognizable: Landschaften and their affiliated Landschaft banks operating in East Germany and to some extent in adjacent areas of North-West and Central Germany; state and provincial banks operating in North-West and Central Germany and parts of West-South Germany; private mortgage banks operating mainly in South Germany; and the savings banks particularly important in the West.

The Landschaften and the private mortgage banks of East Germany have become, and more or less intentionally continue to be, the creditors of the large farms and the upper stratum of the medium-sized farms, the smaller farms being taken care of by the savings banks. In the western part of the country, on the other hand, savings banks, state and provincial banks as well as private mortgage banks are the source of credit to all farmers, although the relatively small peasant farm predominates in this region. In East and Central Germany, for example, the most frequent size of farm loan made by the major lending agencies, not including the savings banks, is from 20 to 50 thousand mark, in West-South Germany from 2 to 10 thousand. The average farm mortgage loan made by savings banks is around 2,600 mark.

The Landschaften—A First Instance of Organized Farm Mortgage Credit

Special legal provisions regulating the lending of money against mortgage security were laid down in Prussia as early as 1723. Six years later King Frederick William I ordered the creation of a "Land Bank" for East Prussia which, like so many of this King's projects, failed to materialize. It remained for his son, Frederick the Great, to lay the foundation of the farm mortgage credit system existing in Germany today by establishing the first specialized agricultural lending institutions in the country.

Organization of the Landschaften was precipitated by the distress of agriculture in Prussia following the devastation caused by the Seven Years' War (1756–1763). After the agricultural crisis had prevailed for several years, Frederick the Great adopted the land bank plan of a merchant named Bühring, essentially as submitted, and created in 1770 the first Landschaft mortgage association in Silesia with a government grant equivalent to approximately $216,000 which was later doubled.

All lands belonging to the nobility were blanketed with a perpetual lien in favor of the association as a general security (Generalgarantie) for any debentures it might issue. Thus even the nobles who did not borrow from the Landschaft became automatically "incorporated" members. Officials of the association appraised all of the provincial lands, handled the making of mortgages and issued the debentures. Although the security was joint and several, the debentures carried the names of the borrowers to whom they were issued. The association did not draw up amortization schemes or collect interest, however, and payments took place directly between borrowers and lenders. In event of default, holders of debentures had usual recourse through the courts; only after failure of court action could creditors ask the association to assist them through its powers of summary process. So successful was the refunding of debts by the Silesian Landschaft that four other provinces of Prussia, impressed by this example, asked for authorization to found associations with similar powers. In addition, one Landschaft was founded outside of Prussia.

These six associations established in the eighteenth century are generally referred to as the "old" Landschaften and have somewhat different charter provisions from the 18 "new" Landschaften founded between 1818 and 1895 in Prussia and other states of Germany.[9]

The difference in the charters was brought about by changes in the German system of land tenure. Before the Napoleonic wars under the system of feudal land tenure the Landschaften were credit associations of the overindebted landed nobility exclusively. Subsequent political and agrarian reforms by which land ownership was vested gradually in the peasantry made it necessary for the Landschaften to respond in some way to the new demand for credit. The old Landschaften solved this problem in various ways. The Silesian Landschaft, for example, began to make loans to nonaristocratic farm owners directly by issuing a special series of bonds for which, in addition to the security offered by the borrower, it assumed liability to the extent of its own assets but excluded the assets of the "incorporated" membership. Thus, the "nonincorporated" borrowers did not become members of the Landschaft. The East Prussian Landschaft,

[9] Today this total of 24 has been reduced through merger and liquidations to 15 which include 4 of the original 6.

on the other hand, issued bonds on the security of peasant holdings of a determined size, only those peasants who borrowed becoming jointly and severally liable with all their land and, thereby, members of the Landschaft. But the guaranty for the bonds based on the entire property of peasant borrowers was linked to the general guaranty to which the nobility was subject. Special institutions for the purpose of making loans to peasant farmers (Rustikallandschaften) were set up by the Landschaft of Pomerania (1871) and that of Kurmark and Neumark (1869). Assets and liability for the bonds of these institutions were separate from the Landschaft proper until 1934 when they merged with the respective mother institutions. Membership in a Rustikallandschaft was acquired by borrowing from it. Liability of nonborrowers, that is a general guaranty, did not apply.

The "new" Landschaften, most of which came into existence during the second half of the nineteenth century,[10] make loans to all farmers regardless of whether they belong to the nobility, but do so with certain restrictions as to the size of the farm. Membership is acquired by borrowing from the Landschaft. The bond issues of the new Landschaften are guaranteed not by the collective landed property of the members but by the underlying mortgages of the borrowers and by special reserves.

The Central Landschaft of Prussia.—During the rather serious agricultural credit stringency of the 1860's the bonds of some Landschaften were quoted at much lower prices than those of others despite identical principles of issue and unquestionable intrinsic security of the bonds. In 1867, for instance, the bonds of the East and West Prussian Landschaften averaged from 8 to 10 percent lower than those of the Silesian Landschaft. This situation was attributed not only to the comparative lack of capital in the respective provinces but especially to the remoteness of some Landschaften from important money centers. To remove the spread in bond prices by strengthening the domestic market and by creating foreign outlets for the bonds of the various Landschaft mortgage associations, the Central Landschaft Mortgage Association of Prussia was founded in 1873 with authority to issue Central Landschaft bonds on the aggregate guaranty of its members. All regional Landschaften and other institutions in or outside of Prussia which lent on farm mortgages were eligible for membership. In the course of time 11 Landschaften became members, a number later reduced through mergers to 9. Only 3 whose individual bond issues had suffered most have made use of the facilities offered by the central agency; 2 have brought out all of their issues and the third

[10] Around the middle of the century agriculture was more in need of credit than ever before, mainly because the farming technique began to change from the antiquated three-field system of rotation to the modern system of crop rotation. For most farms this involved larger investment of capital not only for seasonal but also for long-term operation.

most of its issues as Central Landschaft bonds. The others were afraid that by doing so they would jeopardize their independence, and being in relatively advantageous bond-marketing positions would be weakened by those less favorably situated. Moreover, the original expectation of a lasting premium on the Central Landschaft bonds was short-lived since soon after their issuance they tended to stabilize at the market price of the bonds of the provincial Landschaften. For many years the Central Landschaft had little significance and there were some who called it a failure. In 1931 it was reorganized and acquired a somewhat more important status as will be seen later (page 63).

The Landschaft banks.—Landschaft loans were usually made in bonds which the borrower had to sell to investors in order to obtain cash. Rather than have borrower-members rely in this connection on the perhaps more costly intervention of commercial banks, some of the Landschaften used surplus funds to create special banking institutions, known as the Landschaftsbanken.[11] Furthermore, from the viewpoint of protecting the mortgage loans of the Landschaft, it appeared desirable to have the borrower-members cover short-term credit requirements at a source capable of exercising some control over total indebtedness. From such beginnings the Landschaft banks also developed a general banking and credit business for nonmembers which, it appears, has proved to be the principal source of their earnings and has formed what might be termed a subsidizing backlog for the operations of the Landschaft proper. The Landschaft banks are also authorized to issue bonds in connection with loans made for land improvement (Meliorationskredit; see page 17).

A Central Landschaft Bank was founded in 1925 to operate as a bank for the Central Landschaft and to assist in obtaining foreign loans for the affiliated mortgage credit associations. It carries on a deposit and loan business like other Landschaft banks, but its chief function in recent years has been the distribution of credits from the Central Agricultural Bank among the various Landschaften.

Appearance of Other Lending Agencies in the Farm Mortgage Field

Since the Prussian Landschaften considered themselves primarily as lending institutions for the landed nobility, any action they took during the nineteenth century to provide the medium and small-sized farmer with mortgage credit was lacking in real interest or enthusiasm. In the case of the Landschaften of West Prussia,

[11] Landschaftsbanken of Silesia (1848), Pomerania (1893), East Prussia (1869), Province of Saxony (1898), Schleswig Holstein (1918). At present there are only four regional Landschaft banks, as on January 1, 1935, the Pomeranian bank was merged with the Central Landschaft Bank and now functions as a branch office of the latter. The banking divisions of two other Landschaften have been abolished.

Pomerania, and Brandenburg considerable government pressure was even required to induce such action. With the exception of the Landschaft of East Prussia, which made membership possible for peasant proprietors, the policy was to keep the organization free from peasant influence.[12] The reluctance on the part of the Landschaften to meet the credit needs of nonaristocratic borrowers is to some extent responsible for the fact that lending agencies other than Landschaften also acquired some importance in the remaining sections of Prussia east of the Elbe River. In parts of Prussia west of the Elbe and elsewhere in Germany conditions were somewhat different in that small- and medium-sized farms predominated and there was no sufficiently influential nobility resenting the political and agrarian reforms which did away with its rural overlordship. The task of supplying farmers with mortgage credit in these areas was assumed in the course of time by the *state and provincial banks* (Landesbanken, Landeskreditkassen, Provinzialbanken, Gemeinschaftsbanken) which had been established above all to meet the credit needs of the state, province, or provincial district and of quasi-public enterprises. The first bank to perform the function of supplying urban and rural real-estate owners with mortgage credit was reorganized with this objective in 1832 (Brunswick State Bank). In the same year the State of Hessia founded a bank specifically for making mortgage loans to peasant farmers (Landeskreditkasse in Kassel).

Originally, one purpose of some state and provincial credit banks was to assist in the financial liberation of peasants from feudal indebtedness after political liberation (Bauernbefreiung) had been achieved through various agrarian reforms. After the peasant demand for mortgage credit with which to buy land from the landlords had passed, the state and provincial banks turned to the granting of credit to municipalities, special corporations operating in the public interest, cooperatives, and individuals on the security of both urban and farm mortgages. Most of the banks have also developed an extensive business in general banking, many of them even accepting deposits.

The first *savings banks*, in the true meaning of the term, were established during the latter part of the eighteenth century [13] and began to penetrate rural districts as far back as 1830. They did not gain their importance as sources of mortgage credit to the small and medium-sized farmer until that particular segment of the farming community evolved more businesslike enterprises than subsistence farms. In 1886 the savings banks were called upon by the govern-

[12] The liberal attitude of the East Prussian Landschaft was due probably to changes in the ownership of the large estates. During the two decades from 1820 to 1840 approximately 80 percent of the farms owned by the nobility changed hands.

[13] Hamburg 1778, Oldenburg 1786, Kiel 1796.

ment to assist in relieving peasant indebtedness and it is particularly since then that they have advanced to their present position of great significance as a source of agricultural credit. Authorization to establish clearing centrals was given by the various state governments in years following 1908, culminating in 1917 in the creation of the National Clearing Center (Deutsche Girozentrale). The savings banks have lent indirectly to agriculture by investing some of their funds in the gilt-edged bonds of the bond-issuing farm mortgage credit institutions. They have been most satisfactory in meeting the peculiar requirements of the peasant in both the long- and the short-term credit field not only by virtue of their large number and their volume of deposits, but also of the simplicity of their cash loan machinery as compared with the more complicated mortgage bond credit system of the Landschaften and other banks.

Owing to creation of Landschaften and bond-issuing state and provincial banks granting mortgage loans, "Germany is recognized both as the founder and as the home of the mortgage bank, the mortgage bond and a developed system of real estate credit." [14] However, *private mortgage banks* (Hypothekenaktienbanken) were the last group of credit agencies to appear as active factors in the farm mortgage credit system. Practically all of them were founded during the second half of the nineteenth century, the first one in 1862, when the progressive industrialization of Germany accompanied by city growth and rising land values opened up new possibilities of real estate investment. Modeled after Belgian and French examples [15] they acquired a sound legal status only in 1899 under the Reich Mortgage Bank Act of July 13. Previously their activities had been subject to regulation by the various state governments. The original Prussian regulations of July 6, 1863, modified in later years, were so ultraconservative that most of the new institutions were founded outside of Prussia.

In contrast to the Landschaften, which are organized as nonprofit associations of borrowers, the private mortgage banks are associations of lenders. The profit motive restricted them to doing business in fields where they had little or no competition (urban mortgage credit) and as far as agriculture is concerned, to areas where nonprofit credit agencies did not operate to a noteworthy extent, that is particularly in West-South Germany. Several private mortgage banks were founded in this region for the specific purpose of supplying agriculture with mortgage credit. In 1913 only 6 percent of the volume of mortgages held by the private mortgage banks was secured by farm mortgages as against 12.1 percent in 1937, nearly one-half of

[14] Cohen, Joseph L., *The Mortgage Bank*, London, 1931, p. 142.

[15] Crédit Foncier de Belgique 1835; Crédit Foncier de France 1852.

which was concentrated in West-South Germany. The comparative importance of private mortgage banks in other parts of Germany is due to the business volume of a bank now called Deutsche Centralbodenkredit A. G. This institution was founded in 1870 as the Preussische Centralbodenkredit A. G. for the specific purpose of making farm mortgage loans in competition with the Landschaften whose somewhat bureaucratic cautiousness left a good portion of credit requirements unsatisfied, particularly among the more progressive farmers.[16]

Effectiveness of the Farm Mortgage Credit System Before the World War

"Germany is the only country in which the ideal has been approached and much remains to be done there," wrote American students of agricultural finance in 1912 regarding the question of whether European farmers were adequately and efficiently supplied with credit.[17] Undoubtedly the many agencies in the farm mortgage credit field complemented one another in such a way that any farmer of good credit standing could cover his requirements without much difficulty and at a fair price.[18]

This particular advantage of the system overshadowed at the time other aspects which in retrospect become more obvious. To be sure, there was some concern about the annual net increase in the mortgage debt.[19] On the whole, however, the growth of the mortgage debt was never viewed with alarm for the reason that the agricultural situation was particularly favorable: Owing to the size and growth of the population, supplies of agricultural products were lagging behind the demand and foreign competition, particularly in grains, was restricted through an appropriate tariff policy; good agricultural land was scarce;

---

[16] In 1872 its farm mortgage loans were four times as large as its urban loans; in 1937 they were only 24.5 percent of the total.

[17] Herrick, M. T. and Ingalls, R., *Rural Credits*, New York, 1928, p. 10. Herrick's *Preliminary Report on Land and Agricultural Credit*, published by Department of State in 1912, caused the U. S. Government to send the American and United States Commissions to Europe.

[18] For details, see page 16, table 4.

[19] During the last 20 years of the nineteenth century, for instance, it was believed that to reduce indebtedness wider application should be given to the Landschaft principle of allocating current and advance payments to a compulsory sinking fund at as high a rate as practicable; as will be seen later, skillful manipulation of the sinking fund on the part of a credit institution can contribute to a more rapid extinction of mortgage debt than straight amortization would provide. Yet, the sinking fund principles of the Landschaften were not adopted by other institutions nor did they have that particular effect for the Landschaft borrowers.

Two attempts, both under Landschaft auspices, to minimize the growth of the national agricultural debt were made in the ten years before the war. The more successful of the two measures was the underwriting or reinforcing of mortgage debts by encouraging borrowers to take out life insurance policies for the full amount of the debt. The other plan, designed to prevent the land from becoming excessively encumbered, was embodied in a law passed in Prussia in 1906 providing that on his own application a landowner might make formal entry in the land ownership register of an arbitrary limit above which the mortgage indebtedness of the estate could not go. Details regarding these two plans are given in Part II, pp. 90–93.

TABLE 4.—TYPICAL CHARGES BORNE BY FARM MORTGAGOR IN 1913

Charge	Specialized sources of mortgage credit			Nonspecialized sources of mortgage credit		
	Landschaften	Provincial and state banks	Private mortgage banks	Savings banks	Cooperatives	Life insurance companies
Interest rate (%)	3.5 to 4	4	4.5	4 to 4.5	4 to 4.5	4 to 4. 5
Current contributions to cost of administration (%).	0.02 to 0.04	2.75 [1] to 5 paid once or 0.167 [2] percent annually.				
Commission fees to be paid once only (%).	Maximum RM 400 to 500		0.5 to 1		0.25 to 0.5	1
Commission for placing bonds (%).			0.5 to 1.25 (North Germany) 0.6 to 0.7 (South Germany).			
Amortization quota (%)	0.5	0.5	0.5	(3)	(3)	(3)
Duration	(a) At 3.5—60½ years (b) At 4—56½ years	56½	56½	Varying	Varying	10
Total charges to borrower (%) [4]	(a) At 3.5—4.70 (b) At 4—4.27	4.10 [1] or 4.80 [2]	On average approximately 5.3	Approximately 4 to 4.5.	Approximately 4.25 to 5.25.	4. 15

Source: Adapted from von Bissing, W. M., *Der Realkredit der deutschen Landwirtschaft*, Berlin und Leipzig, 1930, p. 31.

[1] Landesbank der Rheinprovinz.
[2] Hannoversche Landeskreditanstalt.
[3] These agencies, particularly the savings banks, preferred in the interests of liquidity to make callable and unamortized loans. The savings banks made rare use of their right to call the loan. Cooperatives stipulated quarterly notice.
[4] To this should be added the cost of mortgage registration (notary public, courts, and taxes), which in the case of a 1,000-mark mortgage totals 1.4 percent of the loan, while it represents a much smaller percentage the greater the loan. In the case of a 100,000-mark mortgage, for instance, it amounts to only 0.2 percent of the loan sum. This made mortgage credit more expensive to the small farmer. Moreover, frequently when mortgage credit was obtained from private mortgage banks, insurance companies, and private individuals, a commission to a mortgage broker had to be paid.

progressive industrialization accompanied by successful expansion of export markets for industrial products caused purchasing power to increase from year to year; capital seeking investment was ample for the reason that the industrialization process accelerated the formation of new capital; prices of agricultural commodities and land values rose; it was evident that farmers encountered no difficulty in making profits or meeting interest and amortization regularly, and that agriculture carried its increasing mortgage debt burden successfully.

It is not surprising that the German farm mortgage system seemed to work rather satisfactorily as long as these circumstances obtained. The question as to what its performance might have been if the war had not disrupted its evolution is not merely an academic one. It has been conclusively shown [20] that before the war German agriculture borrowed without close cost accounting and without leaving a sufficient margin to carry the cost of its borrowing in periods of serious depression. In other words, the mortgage credit institutions failed to pay sufficient attention to the future capability of German agriculture to meet its obligations. With a reversal of the favorable and unprecedented economic conditions described above, it might not have been able to pay the interest on its comparatively large borrowings. A striking example of a development of this kind is the effect of the last depression on German agriculture when the drop in agricultural income was about ten times as large as the decrease in the interest burden by reduction of rates.

It would appear that a risk margin (Risikopuffer) of 33.3 percent was sufficient under prewar economic conditions to keep German agriculture out of ordinary danger but that for lending on first mortgage security a maximum limit of 66.7 percent of the farm value was probably too high and tempted the farmer to contract debts too large to allow him to meet his interest during periods of depression. Appraisal policies are, of course, important in this connection. But even if they are conservative, under economic conditions and land value developments such as prevailed in prewar Germany nothing can stop the farmer from drawing on other sources of credit beyond the first mortgage security limit set by a credit institution.

Furthermore, any loan made for a period of from 40 to 60 years and perhaps even longer is unquestionably affected by more than one major depression. Refinancing is likely to occur from time to time, and in the long run the mortgage debt will never be discharged. The Landschaften, for instance, did not expect the original borrower to repay the loan during his lifetime. His successor could obtain new loans in amounts up to the original mortgage in order to settle the claims of coheirs and the unique institution of a sinking fund could be used by the

[20] Mössner, K. E., *Das deutsche Bodenkreditsystem*, Berlin, 1934.

borrower almost like a savings account.[21] The perpetual character of the noncallable mortgage loans obtained before the war from specialized lending agencies induced the nonspecialized lenders, particularly savings banks, to prolong their callable advances indefinitely as long as interest was paid regularly. The extraordinary length of the repayment periods made it possible for agriculture to use 75 percent of the annual net increase in farm mortgage loans before the war for settling purchase money balances and coheir claims rather than for introducing improvements and promoting greater efficiency which would enable the farmer to repay the mortgage in due time.

Effects of War and Inflation

During the war and for a period thereafter (1918–20) prices of farm mortgage bonds were higher than those of government bonds, perhaps because investors considered the security of the land greater than that offered by the government. Moreover, since prices of farm products had risen continuously after the declaration of war, it appeared reasonably certain that holders of farm mortgage bonds would receive their promised interest payments. At the same time there was no noteworthy increase in lending to agriculture from any source for various reasons. First, the favorable price situation supplied farms with sufficient operating funds; second, the absence of farm owners caused an almost complete stagnation in the mortgage business; and third, war loan flotation absorbed most of the loanable funds.[22]

The ravages of war economy in German agriculture which are largely responsible for the emergency character of practically the entire postwar period make it impossible to attempt an appraisal of the effectiveness of the German farm mortgage system during this period. The approaches to some of the problems confronting the mortgage credit system since the end of the war are, however, instructive and for this reason subsequent developments are dealt with in some detail. A problem of greatest concern to the credit system was the currency inflation. The direct result of war financing, it began during the last years of the war and assumed particularly disastrous proportions during the year 1923, towards the end of which one United States dollar equalled 4,200,000,000,000 German mark.

[21] For more detailed explanation, see pp. 86–88.

[22] In fact, the government assigned to borrower-debtors war loan bonds in exchange for the sums credited to them in their sinking fund accounts with the Landschaften. Considerable advantage was gained by Landschaft members through the exchange since the interest on the war loans was enough not only to cover interest and current contributions to the administrative expenses of the lending agency but also the larger part of the principal installments due semiannually to the Landschaft.

New Lending Under Inflationary Conditions

In the early stages of inflation, that is, until about 1921, bank and savings deposits increased generally as a result of more or less nominal increases in income through inflation. Mortgage credit was then extended quite liberally by many investors perhaps in the expectation that considerable benefits could be reaped during a subsequent period of declining prices or deflation. At that time such a downward movement was very much desired and considered possible within certain limits.

In order to meet changing money values the credit institutions were obliged to resort to higher appraisals and more elastic lending terms, to raising the nominal value of capital in harmony with the depreciation of the mark, and to the issue of new shares and bonds at high paper-money "values." However, as the public came to realize that any kind of saving or investment in mark gradually lost purchasing power as a result of progressive inflation, savings and other mark investments declined after 1921. The public turned to the accumulation of so-called real values (Sachwerte) such as real estate, jewelry, goods of all kinds. As a result, sources of new funds for granting mortgage credit on the now definitely uncertain currency basis were drying up, and there was practically a cessation of mortgage business. Farmers, in search of a more reliable and fixed base for their transactions, began to do their accounting in terms of commodities, particularly in rye, the principal grain crop of Germany. They expressed even the rental and sale price of land in "zentner" (roughly 110 pounds) of rye instead of mark, and it was believed that rye could also be made the basis of mortgage credit.

Rye mortgage credits and rye bonds.—Therefore, in August 1922 the Rye Annuity Bank (Roggenrentenbank) was founded by a consortium which included the interior colonization enterprises, several central banks for cooperatives and even four German state governments. On December 14, 1922, the first series of rye mortgage bonds (Roggenpfandbriefe) were issued on the basis of rye mortgages ultimately secured by farm land. The bonds, bearing 5 percent interest, specified principal, interest and amortization in terms of zentner of rye. Thus, the holder of bonds amounting to 100 zentner of rye received as interest a sum equivalent to the price of 5 zentner of rye calculated as an average of official quotations on the Berlin commodity exchange during specified periods preceding the due date. Similarly, the borrower's annuity, e. g., 5 percent interest, 0.5 percent amortization and 1 percent contribution to the administrative expenses of the bank, was to be made in sums equivalent to the price of the required quantity of rye (6.5 zentner per annum on a 100-zentner mortgage) as reflected in quotations on the Berlin commodity exchange.

The basic assumption was that the borrower would repay the bank during the amortization period approximately as much purchasing power as he received at the moment of the loan, no matter how wildly the currency and therewith the rye price fluctuated and regardless of what his original principal amounted to in mark.[23]

Although originally intended to make loans only for financing interior colonization schemes, in answer to many requests the bank began in January 1923 to lend to farmers in general. A number of other banks began to function as agents of the rye bank, three new independent banks were founded on similar principles and most of the established mortgage credit institutions (Landschaften, state and provincial banks) followed the same procedure.

The private mortgage banks, owing to statutory regulation and the implications of the mortgage bank law, were excluded until June 1923 when the law on stable-value mortgages made it possible for them to acquire mortgages based on rye or wheat.

The interest rate on the first rye bonds issued by the important mortgage credit institutions was 5 percent. Only in one instance was the 4.5 percent rate adopted. Later bonds were issued at various higher interest rates ranging up to 10 percent.[24]

Although it was taken for granted at the outset that rye currency mortgage loans were an excellent inflation hedge from the viewpoint of a credit institution, practical experience with rye loans and bonds showed that adoption of an agricultural commodity as a stabilizing standard in the mortgage credit field could have serious drawbacks.

The scheme of financing through rye bond issues was necessarily based on the premise that the zentner of rye mentioned on the bond equaled in value the zentner of rye in the grain market. This was more or less the case for some time after February 26, 1923, when the first rye bonds of the Roggenrentenbank were admitted for trading and quotation on the Berlin stock exchange. Soon the demand for rye bonds exceeded the supply and with stock exchange speculation entering the picture, the value relationship referred to was disrupted.

On July 13, 1923, for instance, the Berlin commodity exchange quotation for one zentner of rye stood at an amount of depreciated

---

[23] It is, of course, true that the purchasing power of a zentner of rye measured in terms of a standard of unchangeable value varies in accordance with the supply and demand situation in the market, but of necessity this aspect must be ignored if, during an inflation, the zentner of rye itself is to become a standard for measuring the value of the currency as well as a medium for the preservation of purchasing power.

[24] It is interesting to note here that in the absence of money standards for ordinary appraisal, the credit institutions had to find new approaches to the problem of loan limitation. The Roggenrentenbank, for example, ruled that the 6.5 percent rye annuity to be borne by the borrower should not exceed ⅛ of the average total gross return of the farm expressed in terms of rye. Other institutions based their loans on net returns in terms of rye and limited a loan to the sum which would not oblige the farmer to pay as annuity more than the minimum net return. Prevailing rye currency rentals of farms as well as prewar sale prices or appraised values calculated in zentner of rye at prewar gold prices of rye, or at 25 percent above the prewar gold price to account for the lower postwar value of gold, were also used as a basis.

currency equivalent to 12 gold mark while the rye bond was quoted at 21 gold mark per zentner on the stock exchange; on November 5, 1923, the discrepancy had reached even greater proportions, i. e., 10 and 46 gold mark respectively. During the last days of the inflation the rye-bond zentner was 4 times the price paid for the zentner of rye. To be sure, the premium on the rye-bond zentner as against the zentner of rye was the outgrowth of an unbridled demand for value-preserving securities on the part of the public, but that is the very type of demand to be expected during an inflation.

However, changes in the rye supply or other factors affecting the price of rye as reflected by commodity exchange quotations could just as well be the disturbing influences. After the currency stabilization, rye prices began to drop sharply and this resulted in a severe decline of rye bond quotations. In May 1924, when rye averaged 6.57 mark per zentner on the commodity exchange, the rye-bond zentner was worth 2.54 gold mark and frequently only 1.80 gold mark and less were offered for it outside of the stock exchange.

Thus, within slightly more than a year's time the movement of rye bond prices was such that a borrower would have realized vastly different amounts on the same rye mortgage of 100 zentner. (See table 5, page 23.) These differences indicate the extent to which mortgage bond issues based on an agricultural commodity can fail to preserve the hoped-for stable value.

Such radical changes in quotations on bonds not only gave some borrowers great advantages but also caused severe losses to others, depending upon the dates when the bonds were sold to the public. Roggenrentenbank borrowers, for instance, had the option to receive loans in the form of bonds which they could sell on their own account at any time they desired. Most Roggenrentenbank borrowers preferred to let the bank handle the sale of their bonds and accepted loans in cash against 3-month notes as interim credits to be canceled after the bonds had been sold. As far as the borrower was concerned, this practice made losses or gains even more probable.[25]

For various reasons rye bond issues were continued after stabilization of the currency and despite the decline in rye prices. Investors

[25] A borrower who on July 13, 1923, wanted a loan of 125,000,000 paper mark equivalent to 2,100 gold mark ($500) would contract a rye mortgage of 100 zentner basing the transaction on the bond quotation of 1,250,000 paper mark or 21 gold mark per zentner. If he found a buyer for the bonds readily, he would obtain exactly this amount; if in view of the rising bond prices he postponed the sale of his bonds until November 5, 1923, he would have realized 3,650,000,000,000,000 paper mark equivalent to 4,600 gold mark ($1,095) as against the 2,100 gold mark which he needed.

Particularly extreme would have been the loss to a farmer who on November 5, 1923, had borrowed from the Roggenrentenbank on the basis of a rye mortgage of 100 zentner a sum in depreciated money equivalent to 4,600 gold mark and whose bonds would have been sold 3 months later (February 1924—that is, after the currency stabilization) for 661 Renten (gold) mark. He might have found himself owing the bank 3,939 Rentenmark in excess of the actual bond sale proceeds with which he would be credited.

To what extent extreme situations like these really existed is not known, but they were entirely possible. Less important losses and gains actually occurred.

preferred to buy rye bonds because they had more confidence in the "real value" and—in the event of rising rye prices—in the speculative merits of a zentner of rye than in the stability of the newly created Rentenmark. In fact, new 10-percent rye mortgage bonds issued after the stabilization found a better market at times than the new 10-percent gold mortgage bonds. Farmers on their part preferred the familiar rye indebtedness to the unfamiliar and slightly awe-inspiring debt in "units of pure gold bullion." As late as July 1924, for example, the Landschaft of Pomerania and the Prussian Central Landschaft issued 10-percent rye bonds which were quoted at 4.92 gold mark per zentner, while earlier 5-percent issues of the Central Landschaft were valued at 2.78 gold mark per zentner.

During years following 1924, rye prices started to climb again. On the date when interest payments to creditors were due, that is, on July 1, the commodity-exchange price of rye reached 6.80 gold mark per zentner in 1925, 8.10 in 1926, and 11.10 gold mark in 1927.[26] Therefore, a mortgage of 100 zentner of rye, on which the borrower by sale of rye bonds had realized in cash 492 gold mark in July 1924, amounted to 680 gold mark in 1925, 810 in 1926, and 1,110 in 1927, if it were to be repaid in full.[27] In addition, the cash outlay of the borrower for interest, amortization, and administrative expenses increased. The farmer who through sale of rye bonds in July 1924 had realized 492 gold mark cash on the rye mortgage of 100 zentner had to pay for interest alone the equivalent of 10 zentner of rye amounting to 68 gold mark (13.8 percent) in 1925, 81 (16.5 percent) in 1926, and 111 (22.6 percent) in 1927. The effective interest burden on the loans of the many farmers who had realized only 180 gold mark on their 100-zentner mortgage by sale of 5-percent rye bonds outside of the stock exchange was still higher, with interest due to the extent of 34 gold mark (18.9 percent) in 1925, 40.50 (22.5 percent) in 1926, and 55.50 (30.8 percent) in 1927.

The confusion which the rye mortgage loans brought about in debtor-creditor relations may be illustrated by another example. Farmers who had contracted rye mortgages in 1923 when the gold value of the rye-bond zentner was far above the actual price of rye expressed in gold mark received for a mortgage of 100 zentner on November 5, 1923, depreciated currency equivalent to 4,600 gold mark. If they wanted to repay the mortgage in full on July 1, 1925, only 810 gold mark had to be raised. The bondholder, who was supposed to receive 5 percent interest on his 4,600 gold mark invest-

[26] In order to make reading of these paragraphs easier, the term *gold mark* is used throughout. It stands, so far as the period since the stabilization is concerned, also for Rentenmark or Reichsmark. In fact, the three kinds of mark have the same parity.

[27] Amounts paid for amortization have not been taken into account here, since on these dates they would represent only small fractions of the principal.

Table 5.—Comparative Value of Rye and Rye Bonds

Date	Unit	Value of 100 rye-bond zentner (stock exchange)	Value of 100 zentner of rye (commodity exchange)
February 26, 1923	Gold mark	794	794
July 13, 1923	do	2, 100	1, 200
November 5, 1923	do	4, 600	1, 000
Average February 1924	Renten (gold) mark	385	661
Average May 1924	do	254	657

ment, should have been paid 230 gold mark every year from 1925 to 1927. In reality he received the gold mark equivalent of 5 zentner of rye, i. e., 34 mark (0.74 percent) in 1925, 40.50 (0.88 percent) in 1926, and 55.50 (1.21 percent) in 1927.

Owing to the instability of rye prices after the currency stabilization, operating during the current year and budgeting for the coming year were very difficult for borrowers, credit institutions, and bondholders alike. Mortgage credit institutions, therefore, urged their debtors to convert rye debts into gold mortgage debts, but often such conversions could not be made because of legal obstacles. Between June 1, 1925, and June 30, 1932, however, aggregate rye debts gradually were reduced from 36 million zentner to 7.4 million zentner. In 1934 rye debts still outstanding were converted by law into Reichsmark mortgages at 4 percent interest. As far as can be ascertained, the last mortgage debts originating from financing on the rye basis were liquidated early in 1938. In one of the series of mergers of private mortgage banks which began in 1926–27, the Roggenrentenbank was finally consolidated with the Deutsche Centralbodenkredit A. G., a private mortgage bank, where it is being liquidated.

Gold mortgages and mortgage bonds.—Often the question is raised as to why German credit institutions did not make mortgage contracts on a gold basis to start with. There are several answers.

Legally it was possible to make mortgage contracts in foreign gold standard currencies such as the United States dollar, but the technicalities connected with having these mortgages recorded in each individual case through a special government order to the courts were tantamount to prohibition of lending to the large mass of farmers. Furthermore, the German Supreme Court, upholding the fiction that mark were mark regardless of purchasing power and exchange rate, ruled illegal all mortgage contracts which stipulated payments in gold mark or in units of pure gold bullion. While there was no ground for legal objection to the quoting of prices in gold mark or United States dollars and while even the Reich Government began from September 1, 1923, on—that is, 2 months and a half before the currency was stabilized—to assess taxes in gold mark, legally valid

mortgage contracts could not be made on the basis of a nonexistent currency such as the gold mark or its equivalent in units of pure gold bullion, a commodity which the ultimate debtor, i. e., the farmer, would be unable to deliver. Thus, the law on stable-value mortgages (June 1923), although it contained gold-basis provisions, was applicable only in connection with actually existing "stable-value standards," that is, the zentner of rye or wheat which any farmer-debtor could deliver, if need be, in kind. After establishment of the new currency, the Rentenmark—which had a nominal gold equivalent without being backed by gold—a gold clause could be incorporated legally in any mortgage contract.

Early in December 1923, that is, shortly after the Rentenmark issue, the first gold mortgage bonds were launched by private mortgage banks. They bore a coupon rate of 5 percent and were quoted at 63.6 percent of par which should be considered a rather favorable quotation in view of the fact that the official Reichsbank rate of discount was 10 percent at that time. The coupon rate of gold mortgage bonds issued later by the Landschaften and other semipublic credit agencies ranged from 8 to 10 percent. Nevertheless, rye bond issues were not abandoned for the reasons given above until confidence in the new currency was so firmly established that the commodity basis for mortgage investment became virtually meaningless.

Owing to the scarcity of capital for investment after the inflation, the cost of gold mortgages to the borrower was considerable. Since interest on short-term notes in 1924 was from 18 to 24 percent, 33 percent on overdrafts of current accounts, and 18 percent on tax arrears, it is not surprising that the annuities due on gold mortgages amounted to from 10.5 to 16 percent of the principal according to the credit institution and the type of bond involved. This does not take into account various additional expenses (recording fees, stamp dues, commissions to brokers, etc.) which cannot be definitely expressed, as they depended upon the size of the loan as well as upon the situation of the individual borrower. A large farmer, for instance, who did not need the services of a mortgage broker saved the broker's commission, amounting to from 3 to 5 percent of the principal, while the small farmer had to pay it.

Revaluation

Despite the obvious loss of purchasing power of the mark the German Supreme Court had held until November 1923 that the postwar mark as legal tender was equal to the prewar mark so that mortgages falling due during the inflation period, or such advance payments on the principal as loan contracts permitted, could be repaid in depreciated and, eventually, worthless paper mark. Thus, most

mortgage debts were virtually wiped out and with their payment the great bulk of mortgage bonds was also redeemed. After stabilization had been achieved, the government admitted the injustice to mortgage creditors and bondholders of payment of debts in depreciated currency and on July 16, 1925, enacted legislation which was at least partially mitigating.

As a general rule all *mortgages subject to revaluation* were to be revived and reregistered at 25 percent of their full gold mark value.[28] The reason for compensating the farm mortgage creditor to the extent of only one-fourth of his previous gold mark investment had its roots in the economic situation. It was believed that revaluation at 100 or even 50 percent would make the burden of annual payments for interest and amortization too heavy to be carried together with the payments due on debts newly incurred prior to July 1925 in the form of rye and gold mortgages. Moreover, revaluation to the full extent would have made it almost impossible for agriculture to borrow new capital during the reconstruction period following the inflation. In fact, earlier attempts at revaluation aimed at a basic revaluation rate of 15 percent only which was raised to 25 percent by the revaluation law of 1925.

In cases where the extremely straightened financial condition of the mortgagor warranted such action, the law empowered the "Revaluation Office" (district court) to grant a reduction of the revaluation amount to a minimum of 15 percent of the full gold mark value of the mortgage. With the consent of the "Revaluation Office" purchase money mortgages issued after December 31, 1908, could be revalued at more than 25 percent of the gold value. If mortgagees had filed claims for retroactive revaluation following payment of mortgage loans, mortgagors had the right within 3 months to protest the proposed adjustments on the ground that they would cause peculiar hardship.

Mortgagees could not demand payment of revalued mortgages until January 1, 1932. In connection with legislation regarding interest rates enacted during later years, this period of grace was prolonged first to April 1, 1935, and then to April 1, 1940. The mortgagor on the other hand had the right to make payment at an earlier date after giving 3 months' notice of intention. Apparently much use was made

[28] By the terms of this legislation all mortgages contracted before January 1, 1918, were assumed to have a gold mark value equal to their face value although the mark had been inflated to some extent even before that date. The gold mark value of mortgages contracted thereafter was determined through the foreign exchange rate of the paper mark prevailing on the day the mortgage was given.

The holder of any mortgage repaid between June 15, 1922, and February 14, 1924, "in currency no longer in force" (paper mark) could demand revaluation of his claim against the owner of the mortgaged property within the limits set by law. If a mortgage had been repaid before June 15, 1922, the mortgagee could enjoy the advantages of the law only under the condition that he had "reserved his rights" at the receipt of payment in depreciated currency. Repayments accepted without reservation of rights before June 15, 1922, were credited at their full face value. Mortgagee claims arising out of mortgages subject to revaluation were made valid against any new owner. In all cases where revaluation proved to be applicable, the gold mark equivalent of the amount already paid by the debtor was deducted from the revalued mortgage.

of this right, for in 1925 revalued farm mortgages amounted to 2.75 billion mark while on January 1, 1932, they were estimated at 1.5 billion. On the basis of 1936–37 data recently published by the German Central Agricultural Bank the amount of revalued farm mortgages still outstanding as of July 1, 1937, has been calculated at approximately 770 million mark.

Interest arrears on revalued mortgages were waived by the revaluation law up to January 1, 1925. As a matter of further relief to debtors it was proposed that interest rates be low at first and higher later on after the principal had been reduced to some extent. The scale was planned to be from 1.2 percent to 3 percent during the first 3 years, 5 percent from 1928 to 1931, and 7 percent thereafter until maturity of the mortgage. However, in fairness to the creditors, most of whom had taken a 25 percent scale-down of their original claims, interest rates on the remainder had to be kept as high as possible under prevailing economic conditions. Therefore, the plan was modified so that interest payments began at 4.5 percent and were increased to 5.5 percent in 1930. The 7 percent rate never went into effect, 5.5 percent being fixed definitely by a decree of December 8, 1931. Subsequently (law of July 31, 1935), interest rates on all farm mortgage loans and on farm mortgage loan bonds were reduced to 4.5 percent. As this legislation did not apply to the bonds issued on the security of revalued mortgages on which the rate remained at 5.5 percent, the German Government decided to subsidize farmers in connection with revalued mortgages and is still paying the 1 percent difference between the interest rate to the borrower and that of the bonds.

Mortgage bonds issued before January 1, 1918, were assumed to have a gold mark value equal to the face value, while the gold mark value of bonds issued after this date was to be determined by the foreign exchange rate of the paper mark on the day of issue.

Each mortgage credit institution formed a distribution fund consisting of the proceeds of the revaluation claims of the institution and any sums available from other property. The size of the distribution fund necessarily varied with the resources and legal limitations of the institution involved. Hence, the rate at which bonds were revalued varied also. Revaluation of mortgage bonds was retroactive for bonds which had already been called or drawn by lot.

Liquidation mortgage bonds (Liquidationspfandbriefe) were issued by the various mortgage credit institutions and offered to the holders of depreciated bonds with revaluation claims.[29] Although as a rule only the Landschaften permitted payments on mortgages to be made

[29] A special variety of liquidation mortgage bonds, which are in no way treated differently, are the so-called mobilization mortgage bonds (Mobilisierungspfandbriefe). They were issued mainly by the private mortgage banks on the security and against cession of revalued mortgages to mortgagees desiring to "mobilize" fully their mortgage holdings before January 1, 1932.

in bonds while other credit institutions insisted on cash payments, mortgagors were given the privilege of paying revalued mortgage debts to all bond-issuing credit institutions in liquidation bonds which were to be accepted at their face value. Regardless of the difference in the original coupon rates carried by the depreciated bonds of the various credit institutions, interest on liquidation mortgage bonds was fixed by law for all bond-issuing credit institutions alike, that is, in harmony with the interest rate of the revalued farm mortgages. As shown above, the latter started out with 4.5 percent in 1925 and was increased to 5.5 percent in 1930, the subsidy payments referred to being made by the government after 1935.

The Credit Crisis of 1924

During the first phase of inflation when farmers were enabled to repay mortgages and the cost of production was lagging behind receipts from the sale of agricultural products, agriculture was able to remedy to a moderate extent the damages which the strain of war economy had caused to the production apparatus. However, the last stage of the inflation resulted in further impairment. From July 1923 on, the substantial rise of industrial prices even in terms of gold mark caused a disparity between industrial and agricultural prices of a degree never experienced before in Germany. In addition, the government made increased demands for taxes beginning September 1, 1923. Thus, most of the harvest had to be sold before stabilization and was paid for in rapidly depreciating paper mark. Machinery lay idle owing to the high price of fuel, neither new inventory nor fertilizer was bought, livestock was sold—in short, a noticeable process of decapitalization took place. The only way in which the established farm mortgage credit system could assist the farmer was the granting of the above-described rye credits and, after stabilization, the gold mortgage credits. Owing to the general depletion of the capital market, these credits could not rapidly acquire proportions large enough to be of material help to farmers.

During this time of extreme credit stringency early in 1924, two institutions which were not intended to engage in agricultural lending came to the rescue of agriculture. One was the Reichsbank which placed at the disposal of agriculture 150 million gold mark secured by a portfolio of foreign currency (Devisen), the other was the Rentenbank which furnished 870 million Rentenmark.

The *Reichsbank* is the national bank of issue regulating the circulation of money; but at the same time it is expected to facilitate the clearing of call money, to discount commercial paper, make 90-day loans on collateral and

160556°—40——3

assist the German credit system by making funds available for business in general. In 1922 it was made a private institution, independent from the Reich Government. A law of June 15, 1939, placed the Reichsbank again under the unrestricted sovereignty of the government. The new changes relate mainly to management, share ownership, distribution of dividends etc., without affecting greatly the business activities referred to.

The *Rentenbank* merits more detailed discussion as it is the mother institution of the Rentenbank-Kreditanstalt, i. e., the German Central Agricultural Bank which was organized in 1925.

The *Deutsche Rentenbank* was created in October 1923 for the purpose of putting an end to inflation. The new currency took the form of the Rentenmark which was assumed to be equivalent to the gold mark, although it was not backed by gold. One-half of the bank's total capital (3.2 billion Rentenmark) was raised on the security of mortgages and bonds transferred from industrial and commercial ownership. The other half was raised by a "general mortgage" (Rentenbankgrundschuld) on agricultural land amounting to 1.6 billion gold mark and equaling 4 percent of the 1913 defense tax assessment valuation (Wehrbeitragswert) of agricultural properties. The "general mortgage" bore interest (Grundschuldzinsen) at 6 percent per annum, payable to the Rentenbank. Owners of the property so mortgaged automatically became shareholders in the bank and theoretically were to participate in its profits after deduction of specified percentages to establish a sinking fund for retirement of the floating debt. Such profits, however, were to be credited to shareholders only in the form of deductions from interest due the bank on their mortgage. The "general mortgage" took precedence over all other mortgages even those securing first mortgage bonds.

After an existence of one year the Deutsche Rentenbank, in accordance with provisions of the Dawes Plan (1924), was placed in liquidation by a law enacted in August 1924. At the same time, the Reichsbank was reorganized on a gold currency basis and reinstated as the central bank of issue. Responsibility for withdrawal of the Rentenmark notes in circulation was assumed by the Reichsbank. This was to be arranged by application mainly of the general mortgage interest due the Rentenbank and also of a portion of the net earnings of the Reichsbank as well as by annual government appropriations. When the Reichsbank was reorganized, the indebtedness which had been assumed by finance, industry, and trade for capitalization of the Rentenbank was lifted. Agriculture, on the other hand, not only continued to make interest payments but the general mortgage on agriculture was increased from 4 to 5 percent of the 1913 defense tax valuation in order to keep the capital of the Rentenbank at 2 billion and thus cover the amount of Rentenmark in circulation. Simultaneously, the interest rate payable on the general mortgage was lowered from 6 to 5 percent so that the interest burden of agriculture in this connection amounted from that time on to 100 million mark annually. For various reasons the termination date for liquidation of the Rentenmark currency was extended from December 1, 1930, to the close of 1942. In 1937, there were still 398 million Rentenmark in circulation.

However, beginning April 1, 1930, interest payments on the general mortgage were no longer exacted. The 2 billion mark mortgage itself continued to exist as security for the Rentenmark and other financial operations of the Rentenbank. Because of its peculiar nature the general mortgage is never included statistically with the farm mortgage debt proper.

From its capital, the Rentenbank made available large funds to the government, agriculture and industry principally through the Reichsbank. Its total allocations to agriculture amounted to 870 million Rentenmark.

These three-year credits were distributed by the Reichsbank indirectly to farmers through the Central Bank for Cooperatives (Deutsche Zentralgenossenschaftskasse, frequently referred to as the "Deutschlandkasse") and its affiliated cooperative units, through the savings banks network including the clearing centrals and through other credit institutions. The cost to the farmer was approximately 18 percent, with the Reichsbank discount rate accounting for 10 percent. It should not be overlooked, either, that the Rentenbank could make these loans only because its capital was guaranteed by the "general mortgage" on agricultural property to the extent of 2 billion mark on which all farmers paid 5 percent interest per annum. In other words the cost of the 870 million loan to the farmers who borrowed would in reality amount to 23 percent.

The Period of Reconstruction (1925–30)

With the return of less chaotic financial conditions farmers desired fresh operating capital as it was generally believed that the salvation of agriculture depended solely on greater productivity. But then the revaluation of 1925 obliged agriculture to assume again at least one-fourth of the burden of its preinflation indebtedness.[30]

In addition to this now unproductive encumbrance new capital for immediate intensification of farming operations was needed. Borrowers had no hesitance in asking for mortage loans of the same size their farms had been able to carry before the war, and accepted all the credit they could obtain in spite of the extremely high interest charges. They could not foresee at the time that future returns would be such as to bring the rate of earnings from agricultural capital below the current rates of interest. In 1913 the average interest rate on the total farm debt was 4.3 percent. In 1931, after rates had gone down considerably, it was at least 8 percent. More significant than either the reestablishment of a comparatively large volume of debt or the rise in interest rates was the unfavorable change in the relation of interest payments to the annual agricultural gross income. Higher taxes, wages, and social insurance contributions, combined with the widening margin between prices of products sold by farmers and prices of commodities purchased by them, caused declining profits and increasing losses. In 1913, interest payable on the farm debt averaged 6.9 percent of the gross cash income, but rose from 7.5 percent in 1925–26 to 13.6 percent in 1931–32. In 1927–28, when it was 8.5 percent, taxes took 8.2 percent and social-security contributions around 3.5 percent.

Careful lending policies on the part of the mortgage credit institutions did not prevent the mortgage debt (capitalized annuities not included) from increasing during the period of reconstruction as follows:

[30] In 1925 agriculture had a mortgage debt (not including capitalized annuities) of 4 billion mark, 1.25 billion of which represented fresh borrowing while 2.75 billion accounted for revalued mortgages; its short-term obligations amounted to approximately the same as the mortgage debt.

TABLE 6.—DEVELOPMENT OF MORTGAGE INDEBTEDNESS BY TYPES OF MORTGAGE, 1925–30

[*Million mark*]

Type of mortgage	1925	1926	1927	1928	1929	1930
Revalued mortgages	2, 750	2, 400	2, 200	1, 950	1, 875	1, 600
Purchase money mortgages	250	500	750	1, 100	1, 225	1, 300
Other mortgages	1, 011	2, 049	2, 814	3, 623	4, 117	4, 350
Total	4, 011	4, 949	5, 764	6, 673	7, 217	7, 250

Source: Kokotkiewicz, Gerhard, *Der Immobiliarkredit* Institut, für Konjunkturforschung, Sonderheft 30, 1932, p. 21.

The particularly interesting item is "other mortgages" which should represent funds borrowed for improving the efficiency of the farm in the long run. In reality most of the new mortgage loans had an entirely different character. They were obtained principally for taking the place of the more costly short-term operating credit.[31]

Moreover, in 1926 farmers already had piled up arrears by giving promissory notes instead of fully meeting payments and charges on all types of debts.[32] Conversion of such debts into long-term amortization loans appeared to be the only way out. As the basic farm mortgage credit institutions were unable to supply sufficient funds for this purpose, the newly founded Central Agricultural Bank, being short of funds itself, obtained a credit for ultimate distribution through the farm mortgage credit system amounting to 360 million mark from an institution that had no relation to agriculture, namely, the German Gold Discount Bank (Deutsche Golddiskontbank).[33] The new mort-

[31] Since the operating capital of the farmers, together with most of their reserves, had been exhausted by the inflation, in order to produce at all they were forced to accept any type of credit offered. This took the form of three-months' bills at rates too high to be paid out of the gross returns. Also, since stabilization did not occur, so to speak, overnight, interest rates changed frequently. At the beginning of the post inflation period, farmers paid interest at rates per day, later per month. Agriculture was in a relatively worse situation than urban enterprise and as a result of this and of the general credit stringency, short-term lending institutions felt compelled to charge high fees for risk compensation. During the first quarter of 1924, it was usual for farmers to pay as high as 30 percent per annum for operating credit, a charge composed of 6 or 8 different fees, including interest. Throughout 1925, a charge of 20 percent was customary. Even in 1926 and 1927 farmers with good credit relations are reported to have paid from 12 to 14 percent for operating credit. In consequence of the high charges for credit on three-months' bills, the desperate farmers appealed to long-term credit institutions for operating credit in the form of amortization loans at more favorable rates.

Because of the scarcity of mortgage money and the pressing demand for it, and because of new untried risks, rates for mortgage credit were also high. Among the causes of credit risk was lack of an adequate valuation standard adjusted to postwar conditions, for both sale prices and net-return valuations were out of line. At the beginning of 1926, the effective charge for mortgage loans was about 15 percent. In July of that year it was 10.4 percent, in December 9.25 percent, and early in 1927 it was 7.5 percent. Mortgage bonds were issued at 10, 8, and 7 percent until the beginning of 1927 when an issue of 6-percent bonds was tried. By the end of 1927, in an attempt to place the bond issues on an economic basis, the bond rate had been raised again to 8 percent. The loans floated in the United States by the Central Agricultural Bank in 1925–28 carried an average rate of 7.5 percent.

[32] In order to cover operating deficits as well as tax and interest arrears farmers borrowed fresh funds. These new encumbrances together with loans obtained for other unproductive purposes (inheritance share settlement, dowry, new household equipment, etc.) were estimated by Mössner, *Das deutsche Bodenkreditsystem*, Berlin, 1934, p. 98, at 620 million mark annually or 2.5 billion from 1924 to 1928.

[33] The Gold Discount Bank, established in 1924, had a capital of 10 million pounds (205 million mark) based partly on a special credit given by the Bank of England, partly on participation of domestic commercial banks. It is owned now by the Reichsbank and its principal function is supplying the German export trade with credit for buying raw materials.

gage loans cost the farmer 7 percent interest which, in view of the prevailing rates, was considered extremely advantageous, and had the comparatively short duration of 3 or 5 years. However, liquidation was not accomplished in so short a time. Around 20 million mark are still outstanding today.

After the inflation, mortgage institutions experienced increasing difficulty in placing new issues of farm mortgage bonds. Traditional purchasers of these securities, such as the savings banks, were unable to buy them in former volume. The farm mortgage credit system had, therefore, no alternative than to turn to foreign money markets to the extent indicated in Table 3. To avoid disorganized efforts in this respect and to make investment in German agriculture more attractive to foreign capital by offering the guarantees of a financially powerful and public nonprofit institution it was decided in 1925 to create the German "Central Agricultural Bank" (Deutsche Rentenbank-Kreditanstalt). Besides, it appeared desirable to have a central institution such as this assist in converting the 870 million Rentenbank credits referred to above into long-term amortization mortgage credit.

The Central Agricultural Bank.—As indicated previously the Central Agricultural Bank is a bank for banks and may extend long-term mortgage credit only to the basic mortgage credit system. Strict control is exercised over the use of borrowed funds. Interest rates charged by the Central Agricultural Bank are governed by the Reichsbank discount rates.

Authorized capital of the Central Agricultural Bank was obtained from the profits of the Deutsche Rentenbank as of August 1925 and from any funds accumulated from the annual interest payments by farmers on the "general mortgage" (instituted upon the founding of the Rentenbank) over and above the amount fixed and administered by the Reichsbank for the retirement of the Rentenmark currency. Owing to such stipulations of the law establishing it, the Central Agricultural Bank has no share capital and no shareholders in the usual meaning of the terms but rather a revolving fund whose distribution in case of liquidation will be decided by the administration of the Bank and the Reich Government. At the end of 1937, its authorized and paid-in capital was 500 million and its total assets amounted to more than 1.5 billion mark.

Credit has been extended by this bank from its capital and from the proceeds of bond issues. Its bonds must be covered fully by those of the institutions through which it operates and by unpaid principal of loans. Ordinarily bonds in circulation are not to exceed six times its capital but may amount to eight times that amount with special consent of the Reich Government. A special reserve fund equal to 5 percent of the bonds outstanding is required. All bond issues of the bank are subject to approval by the government without, however, enjoying government guaranty.

Since issues were to be planned so they would not interfere with the domestic market for bonds of the established mortgage credit institutions, Central Agricultural Bank bonds had to be placed with government institutions or marketed outside of the country. The security for the foreign bond issues, in addition to the capital of the bank, consisted of first gold mortgages pledged to the Central Agricultural Bank by the institutions making the loans.

Operation of the bank is subject to government supervision; otherwise it is autonomous. It is governed now by an assembly of 70 members representing the largest agricultural organizations and appointed by the Reichsnährstand, the all-inclusive farmers' organization of the National Socialist Party (see page 41, footnote 46), and by a board of 27 directors which determines policies to be followed by the 4 executive directors. Chairman of the board is the president of the Rentenbank.

During the reconstruction period the presence of the Central Agricultural Bank in the credit system was of great significance. In 1928 almost 30 percent of new mortgage loans made by the specialized mortgage credit institutions, excluding the savings banks, were based on loanable funds obtained through the Central Agricultural Bank as against 12 percent in 1936.

Within the period of economic reconstruction in agriculture, which in a way is also a period of reconstruction of the basic mortgage credit system, the first signs of a movement toward concentration became noticeable. Thus, the number of private mortgage banks which in 1913 numbered 34 decreased through mergers to 25 in 1933. Also, some of the Landschaften merged somewhat belatedly in 1934. However, concentration was caused by the necessity of bringing about savings in overhead and greater uniformity in bond-issuing policies rather than by a desire to decrease the number of institutions serving German agriculture. Mergers were avoided as far as possible.[34]

Effect of the Depression

As shown in table 11, page 56, gross farm income fell continuously from 1929 until 1933, while indebtedness increased until 1931 and interest payable until 1932. The ensuing collapse practically annihilated whatever progress the credit system had made during the period of reconstruction. Also, it showed clearly the dependence of the mortgage institutions on accumulated reserves or on adequate operating margins and their defenselessness after those resources had been destroyed.

In what happened during the last depression some proof can be found for the assertion made previously that the lending policies of the system before the war might have resulted in similar difficulties under the strain of any eventual serious depression even if the war had not intervened. Of course, depressions of a magnitude equal to that experienced from 1929 on in Germany are likely to affect any

[34] The Central Agricultural Bank, for instance, gave as a reason for its participation as a shareholder in the capital of the Central Landschaft that it hoped thereby to contribute to the formulation of new policies of bond issue. By and large, therefore, the prewar picture of the mortgage credit system has been preserved and the depression did not change its structural aspects.

credit system.[35] Exercising the utmost care in lending during the reconstruction period and exerting the most strenuous efforts to build up reserves would not have placed the mortgage credit institutions in a position to weather the depression unaided. Perhaps the fact that a considerable portion of the mortgage loans is made by institutions in which the ideology of public service plays an important role caused the loan volume to be larger than desirable. On the other hand, following the investment outlook of private bankers with a view to land value developments and capital market positions, private mortgage banks began to enforce more frugal agricultural lending policies as early as 1927 when, in fact, the first signs of an impending agricultural crisis became evident. (See table 7, page 34.)

Debt-Relief Legislation and Mortgage Debt

DEFAULTS, foreclosures, interest-rate reductions, moratoria, and scale-down of indebtedness characterized the years of the depression after 1929. Many of the measures adopted by the German Government in legislative and executive action had their inception in the eastern areas of Prussia where newly incurred debts, higher taxes, interest rates and wages, together with loss of markets for certain agricultural products resulting from postwar boundary revision, had brought acute suffering to holders of large indebted estates. The debt-relief measures gradually were applied to more and more territory of Germany, progressing from east to west, as may be seen from the map on page 35.

Debt Adjustment for East Germany (Osthilfe)

By 1931 indebtedness of agriculture east of the Elbe River had assumed such proportions that one out of every six farms was indebted beyond its tax value and was in need of government support. In East Prussia the agricultural situation necessitated farm-relief measures as early as 1926 and before the main debt-adjustment scheme was enacted in 1931, 13 different relief actions had been carried out in this region.[36] Several of them involved debt relief by refinancing. These measures crystallized in a scheme embodied in the law of March 31, 1931 (Osthilfegesetz). The task of freeing East German

[35] In 1927, for instance, arrears in interest payment to Landschaften amounted to 22 percent of total due which, according to past experience during ordinary economic depressions before the war, was the deficit to be expected. In 1931 arrears had risen to 39 percent and at the end of 1933 they had reached, in the case of some Landschaften, as much as 75 percent. The area foreclosed every year increased from 91,590 acres in 1927–28 to 434,908 acres in 1931–32. In 1936–37 it was 39,101 acres.

[36] These are described in Drescher, Leo, *Entschuldung der Ostdeutschen Landwirtschaft*, Berlin, 1938, under the caption "Vorläufer der Osthilfe."

TABLE 7.—PRIVATE MORTGAGE BANK LOANS, 1924–33

Year	New farm mortgage loans as a percentage of total new mortgage loans	Annual net increase or decrease in farm mortgage loans	Year	New farm mortgage loans as a percentage of total new mortgage loans	Annual net increase or decrease in farm mortgage loans
	Percent	*Million mark*		*Percent*	*Million mark*
1924	11.5	+21.4	1929	15.7	−14.0
1925	27.5	+168.9	1930	13.3	+3.7
1926	25.2	+226.1	1931	12.1	−20.9
1927	20.2	+119.7	1932	12.0	−39.1
1928	17.9	+170.4	1933	11.9	−30.8

Source: Mössner, K. E., *Das deutsche Bodenkreditsystem*, Berlin, 1934, p. 308.

farmers from overindebtedness during the following six years was entrusted to the German Industrial Bank (Deutsche Industriebank—formerly, Bank für Deutsche Industrie-Obligationen) because it was felt that industry should supply the funds which would bring about an improvement of the agricultural situation and thereby a revival of industrial activity.[37]

The characteristics of the Osthilfe debt-adjustment procedure are: consolidation of debts, new loans at low interest rates, control of farm management, and scale-downs.

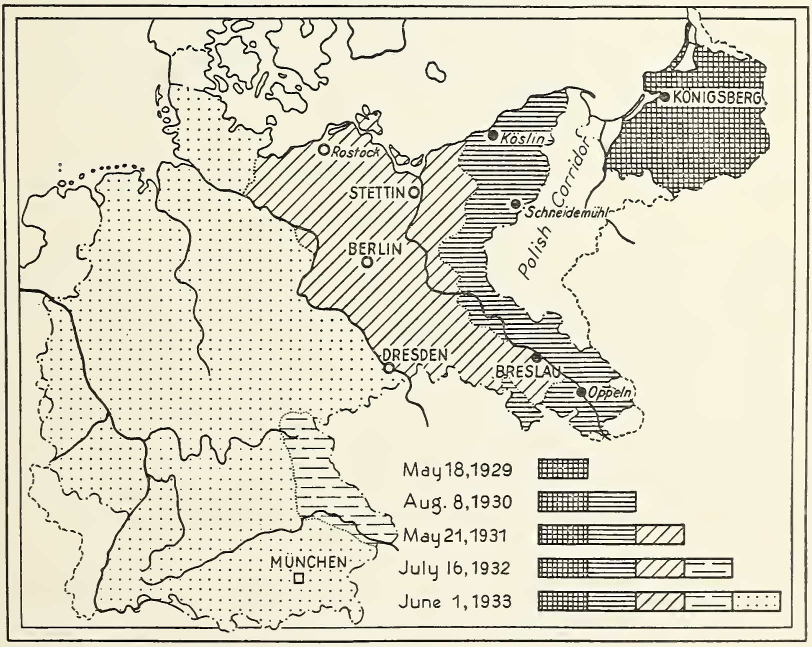
The consolidation of debts—the most important task to be accomplished—was achieved by substituting new long-term second mortgage loans for part of the excess indebtedness, particularly the short-term debts, as well as by the sale of land, lumber, and other assets which could be alienated without impairing the efficiency of the agricultural enterprise. Loans made by the Industrial Bank were based on revised principles of appraisal, the emphasis being shifted from the current capital value of the farm to its permanent earning capacity.[38] New loans having a duration of 33 years amounted to approximately 570 million mark. In addition, special loans by the Bank and particularly government credits totaling more than 400 million mark were placed at the disposal of indebted farmers. Most of these latter credits should be regarded more or less as subsidies not to be repaid. The total amount employed, approximately 1 billion mark,

[37] In 1924 the German Industrial Bank was established as a joint stock company under government supervision. Originally, under the "Dawes Plan," this bank was charged with the task of seeing that the interest on the "industrial debt" of 5 billion mark was paid to the trustees of the reparation creditors. With the suspension of the "industrial debt" by the "Young Plan" (1930) the bank was reorganized and became a lending agency for industries, especially small and medium-sized companies. It is authorized to handle commercial bills but may not accept deposits nor engage in other short-term credit business. However, the "Dawes Plan" levy on German industries (Aufbringungsumlage) which served to pay interest and amortization on the industrial debt was not abolished at once. During 1930 the amount involved went into the Reich treasury and with the Osthilfe law of March 31, 1931, the great bulk of these funds becoming available semiannually from 1931 to 1936 was assigned to the German Industrial Bank for the purpose of financing the Osthilfe debt adjustment. On the whole, the bank received 510 million mark through this levy, of which 415 were used in the debt-adjustment scheme and 95 for making industrial loans. Mortgage bonds in bearer form may be issued by the bank in a maximum volume of six times the amount of its basic capital, which is 100 million mark. The government and the Rentenbank are represented in the bank's directorate.

[38] For details, see page 79, footnote 24.

represents about 10 percent of the total tax value of all farms in East Germany, including those free from debt. Although typical peasant farms were in the majority among the enterprises whose debts had to be adjusted, they absorbed only half of the above amount while the other half went to large farms. Of utmost importance in the adjustment of indebtedness was the reduction of interest rates, for arrears in interest payments originally had very materially contributed to the accumulation of debts during the postinflation period of high interest rates. Interest and amortization of the new loans burdened the farmer with only 4.5 percent annually, the interest rate being 3.6 percent. It is interesting to note that part of the new loans, or 4.6 percent of the total unreduced indebtedness, was not used immediately for the consolidation of debts but was retained by the Bank (Rückstellungen) to make operating loans as need arose and thus help to reestablish the farm on a sound business basis.

The farms enjoying "Osthilfe" are under the supervision of the Industrial Bank, current control of their business being necessary since simple scale-downs and granting of new loans have proved to be insufficient to prevent many farms from getting into financial difficulties again.



Source: Drescher, Leo, op. cit. p. 9

FIGURE 2.—Farm Debt Relief Areas and Time When Action Was Started.

Scale-down agreements between creditors and debtors reduced indebtedness by 16.5 percent on the average. According to the law scale-downs up to 50 percent were possible and frequently they affected even first mortgage loans made by credit institutions. However, the average amount of scale-downs is increased by an additional 7.4 percent of so-called excess claims (Überhangsforderung) repayable only if warranted by the financial situation of the farm. These do not encumber the debtor lastingly and represent a possibly fictitious asset for the creditor, since they are neither to be amortized nor subject to interest.

Creditors received in cash or negotiable bonds [39] 30.4 percent of the total unreduced indebtedness. Distribution of such funds resulted in a clearly recognizable animation of business activity in East Germany. Approximately one-seventh of the amount involved was supplied by the debtors themselves through sale of the assets referred to above.

The various debt-adjustment measures affected 58.9 percent of the total unreduced indebtedness, while the remaining claims of creditors (41.1 percent) were left standing. The significance of debt relief for East Germany from the viewpoint of national economy may be seen in the fact that the scheme represents one of the first steps taken to overcome the effects of depression and that from the very beginning the emphasis of adjustment was not placed on mere debt reduction but on the provision of new credit during a period of extreme scarcity of capital.

General Debt-Adjustment and Farm-Relief Legislation (Schuldregelungsgesetz)

Experience with the methods of debt adjustment and refinancing employed in the Osthilfe scheme during the first two years induced the government to follow essentially the same methods in a general debt-adjustment scheme applicable to all of Germany under a law of June 1, 1933. This scheme is still in operation and in its general principles is being extended to the newly acquired areas where additional special problems have also to be solved. Farms whose debts were adjusted under the "Osthilfe" are not eligible for renewed settlement except in the case of the apparently somewhat privileged hered-

[39] These are the so-called eastern debt-adjustment bonds (Osthilfe-Entschuldungsbriefe) issued by the Rentenbank in order to take advantage of its prestige. Security for the bonds was a corresponding amount of the free portion of the revenue from the Rentenbank "general mortgage" and the individual mortgages which were registered in the amount of the refinanced farm debt. For the purposes of redemption of and interest payments (4.5 percent) on these bonds, funds were provided to the Industrial Bank from the industrial levy, from the Reich Government revolving fund, from interest and principal payments on the new mortgages and from earnings of the Central Agricultural Bank. The funds involved were made over by the Industrial Bank to the Rentenbank. The latter as well as the Reichsbank rediscount the bonds or make loans on them. On March 1, 1938, only 42 million of the total 350 million bonds issued were still outstanding and intended for retirement by March 31, 1939.

itary farms which will be discussed later. The number of farms in need of debt adjustment was estimated at around 200,000 out of a total of 3.1 million (6.5 percent).[40] In the summer of 1938 "Osthilfe" and the general debt-adjustment scheme combined had been applied to approximately 116,000 farms.

While the basic farm mortgage credit agencies played no role in the "Osthilfe" refinancing action of the Industrial Bank, they are active agents in the general debt-adjustment scheme in that they make the new debt-adjustment mortgage loans with funds from the Central Agricultural Bank. Since the Central Agricultural Bank is not supposed to procure funds in the national capital market, the Rentenbank again issued, just as for "Osthilfe," a special kind of 4-percent bond called this time debt-redemption bond (Ablösungsschuldverschreibung). The Reich Government also placed at the disposal of the Central Agricultural Bank funds consisting partly of special appropriations, partly of treasury bills, redeemable by the government during 1941–43.

Other Measures

Concurrently with these two debt-adjustment schemes other measures to lighten the debt burden of the farmer were taken.

Protection of agricultural real estate from forced sale in the early years of the depression varied among the several states. In general, the first suspensions were granted to give debtors time to work out methods of bringing debts into the proportion their farms could bear. Protection from foreclosure in all of Germany has been regulated by several major decrees, of which the first (July 26, 1930) permitted suspension of forced sale of real estate for a maximum of six months if fulfillment of obligations due was prevented by economic developments over which the debtor had no control. Provision was made later for several additional six months' extensions. At the same time, in order to protect the mortgage credit institutions, it was stipulated that such suspension could be granted only on condition that recurring obligations which fell due in the period of suspension were promptly met. A decree in September 1932 gave further qualified protection to mortgage credit institutions in a few specific areas. Suspension of foreclosures was continued by an order of January 1933, provided that certain recurring liabilities had been met. This condition was removed in February 1933 and it was then decreed that with minor exceptions no foreclosure proceedings could be carried out at all unless the creditor could show that the farmer was not qualified to operate his farm properly. Seizure by creditors of movable property except luxury articles was forbidden. Certain

[40] For details as to which farms are considered overindebted, see page 79, footnote 25.

claims against the farmer were exempt from this decree,[41] which was extended in October 1933 to be effective until January 1, 1934. It was replaced by the general debtor-protection decree of December 27, 1933, which did not differentiate between agricultural and non-agricultural debtors.

In the meantime a *moratorium* providing that principal payments on farm mortgages should be deferred until April 1, 1935, was authorized by the decree issued on September 27, 1932, and was extended until April 1, 1936, by the law of September 28, 1934. However, the moratorium did not apply to amortization payments unless the amount of the delinquent installments exceeded 3 percent of the original mortgage loan. Except for particular cases, the moratorium was extended again by the law of July 31, 1935, until April 1, 1940.

Effective January 1, 1932, the government ordered a drastic *reduction of interest rates* on mortgages and mortgage bonds. Rates of 8 percent were reduced to 6 percent; those between 8 and 12 percent were reduced one-fourth and those in excess of 12 percent one-half. Interest rates of 6 percent and below were not affected. Credit institutions which had obtained foreign credits and loaned the proceeds in Germany were permitted to maintain their interest rates. Since mortgage loans extended from the proceeds of foreign loans were not always readily distinguishable from those granted on the basis of domestic mortgage bonds, institutions having both types of loans could modify the prescribed reduction of the interest rates paid by all their German debtors to an extent sufficient to make possible full payment on their foreign borrowing.[42]

As of October 1, 1932, mortgage interest rates were reduced again for a period of two years ending September 30, 1934, by as much as 2 percent, but not below the rate of 4 percent. It was believed this would lower the prevailing average rate of 6.5 percent to 4.5 percent. The principal of the loans was increased by the amount of the interest remitted, e. g., by from 4 to 5 percent, which was to become due on the date when the principal matured. No interest was charged on the deferred interest. If, however, the principal was repaid before April 1, 1940 (7½ years), the extra amount to be added to the principal was to be reduced by various percentages and if the principal was repaid before April 1, 1937 (4½ years), the extra amount was not to

---

[41] Legal claims to maintenance which matured after December 31, 1932; claims for wages and salaries of the debtor's employees; insurance premiums which matured after the date of the decree; claims for fertilizer and seed credit.

[42] One effect of the reduction of rates on bonds was an immediate adjustment of bond prices resulting in substantial and inequitable capital losses to holders of bonds affected by interest reductions. It is reported that a purchaser of 6-percent bonds at 67½ in 1930 found his interest unchanged although he was receiving 8.8 percent on his investment. A purchaser of 7-percent bonds at 85½ in 1930 with practically identical yield found he had been deprived of one-seventh of his returns. The actual extent of the adjustment in bond prices could not be ascertained since the exchange remained closed from July 1931 to April 1932 except for a few weeks. After the reopening, bond prices advanced.

be added at all. Interest rates on mortgage bonds were not changed, the Reich Government temporarily subsidizing the credit institutions to the extent of the difference by giving them treasury bills. In return, the credit institutions gave the Reich debt certificates (Schuldverschreibungen) redeemable in 1971–73. The total volume of this transaction was 75 million mark.

A law of September 28, 1934, authorized continuance of the lowered interest rates to September 30, 1935, with the provision that the amounts lost by reduction were not to be added to the principal. Until a law (January 24, 1935) made bond conversion possible, the credit institutions were again compensated by government subsidies.[43] The reduction was then made permanent by a law enacted on July 31, 1935. By its terms farmers continue indefinitely to pay interest at the rate of 4.5 percent, plus administrative charges if they are borrowers from bond-issuing mortgage credit institutions.

There are several exceptions to the interest rate reduction on farm mortgages and bonds:

1. Mortgage bonds issued on the security of revalued mortgages (Liquidationspfandbriefe) are not subject to the interest rate reduction of the law of January 24, 1935, while the lower rate is being paid on the mortgages securing them. Hence the government subsidy explained on page 26.

2. Interest rates of mortgage bonds secured by mortgages on farms coming under the "Osthilfe" and general debt-adjustment schemes remain unchanged for that portion of the indebtedness which exceeds the legal limit for trust fund investment (Mündelsicherheitsgrenze; for explanation see page 79, footnote 25). As the farmer-debtor pays less interest, the government continues to compensate the credit institutions to the extent of their losses.

3. Interest rates of mortgages securing bonds sold in foreign countries were not lowered, but in this instance the government pays the obligated German credit institutions the difference as a subsidy so that the farmer does not have to pay more than 4.5 percent. This does not apply to Gold Discount Bank mortgages (pages 30–31).

4. On second mortgages contracted before July 2, 1936, the interest rate may be above 4.5 percent, but must not exceed 6 percent; second mortgages contracted after that date are not bound to any definite rate.

---

[43] All domestic farm mortgage bonds having a coupon rate of 6 percent or more could be converted in accordance with the law of January 24, 1935, into 4.5 percent issues to be accompanied by a corresponding reduction of the interest charge on the underlying mortgages. The mortgage institutions were authorized to pay holders converting their bonds cash bonuses of 2 percent. Bonds for which the so-called "voluntary" conversion was not accepted were to be struck off German stock exchange lists, so that they could not be traded in or used as collateral for bank loans. A very small number of protesting bondholders is reported to have continued enjoying the previous higher rates, the difference being made up by the credit institutions themselves.

Agricultural Credit Under National Socialism

SINCE the advent to power in 1933 of the National Socialist German Labor Party, agricultural policies have been imbued with the general philosophy that the interests of the community must be placed above those of the individual. The credit system, therefore, and also the ultimate creditor-investor has to serve the requirements of the nation. Interest reductions and scale-downs, although regrettable from the viewpoint of a creditor, are held to be necessary for the resurrection and preservation of the German peasantry in which the strength of the nation is believed to be rooted more than in any other stratum of the population. The soil is sacred and should not be made the object of commercial transactions. From this philosophy two laws have arisen which in the long run may change to some extent the farm mortgage credit system in Germany as it still presents itself today and may make much of its machinery obsolete: the Hereditary Farm Law which went into effect on October 1, 1933, making it impossible for the owners of approximately 685,000 farms having from 18.5 to 309 acres—or 22.3 percent of the total number of farms and 37.4 percent of the total agricultural area—to mortgage their property for any purpose whatsoever;[44] and a law of January 26, 1937, which subjects any sale, tenancy, or exploitation contract for agricultural and forest areas above 5 acres to government authorization. The last-mentioned law is intended on the one hand to prevent farm land from being used for purposes not in the interest of national economy and on the other, to make difficult, if not impossible, speculation with the soil, since in a country as densely settled as Germany this would lead to undesirable increases in land values and thereby in mortgage indebtedness.[45]

Such restrictions mean that a credit institution can no longer freely follow the policies as might be dictated by its financial situation and other busniess considerations. Whether it should engage in more

[44] The actual number and total area of farms having from 18.5 to 309 acres is considerably larger than indicated. So far not all farms of the size in question have acquired Erbhof status, but many of them may be included in the future. A detailed statistical study of the Erbhof situation as of June 30, 1938, is contained in *Die Erbhöfe im deutschen Reich*, Wirtschaft und Statistik, 1 März, 1939.

[45] The history of German farm mortgage credit shows unmistakably that agriculture has gradually become more heavily indebted since the inception of the first farm mortgage institutions owing to rises in land values. From this observation the theory has been developed (Weyermann, M., *Zur Geschichte des Immobiliarkredits in Preussen*, Karlsruhe, 1910) and substantiated (Drescher, Leo, *Entschuldung der Ostdeutschen Landwirtschaft*, Berlin, 1938) that there is the following vicious circle: rising land values lead to increased indebtedness; during depression periods falling agricultural prices necessitate refinancing and debt reduction (accomplished either by bankruptcy or government support with legally authorized scale-downs, that is, loss of capital in either case) the new loans granted assume larger proportions as land values rise until a new depression causes repetition of the cycle described. Therefore, cases where a long-term mortgage is ever fully paid up out of returns from the farm are not the rule in Germany.

liberal or more frugal lending is a decision which rests with the government. Thus, for example, authorizations for the issue of new series of farm mortgage bonds were withheld with minor exceptions by the government from 1934 to the end of 1938 (Emissionssperre). From August 1938 to April 1939 savings banks, public and private life insurance as well as public social insurance institutions, credit cooperatives, and other organizations not specializing in the mortgage credit field were ordered not to grant mortgage credit (Hypothekensperre) but to buy government bonds instead. Agriculture is compensated for not being able to borrow freely by marketing regulations which, coupled with price fixing, are intended to assure a comparatively high and stable income.

To the agencies financing interior colonization and land improvement mentioned above, the general agricultural objectives of National Socialism are likely to give a much more prominent position in the credit system than ever before. Totalitarian principles and the incorporation of all farmers in one national peasant organization (Reichsnährstand) [46] make it possible to enforce the formation of land improvement associations or consortia where projects desirable from the viewpoint of national economy should be undertaken and farmers are unable to arrive at a voluntary agreement. Control of the land improvement credit system through the Central Agricultural Bank guarantees uniformity of policies and the most economic use of funds.

Finally, credit institutions in the mortgage as well as the short-term field are obliged to take part in financing certain branches of agriculture which the regime wishes to encourage. There is a wide variety of such special credits (Sonderkredite) supplemented by government subsidies.

The Hereditary Farm Law (Reichserbhofgesetz)

The Hereditary Farm Law definitely establishes the principle of sole inheritance and indivisibility for farms of the size indicated previously. This is not startlingly new as the principle had been adhered to voluntarily by farmers as a matter of tradition in many regions of Germany for centuries. However, the law will check exaggerated subdivision of farming land by inheritance, which had occurred particularly in West Germany and in those regions where full- or part-time employment in nearby industrial districts or certain types of home industries can supplement the landowner's income. Further intensification of such structural changes is considered undesirable for

[46] Aryan German farmers without exception belong ipso facto to the district farmers' organizations of the National Socialist Party (Kreisbauernschaft) which form 22 regional organizations (Landesbauernschaften) welded into the national organization, the Reichsnährstand. Each group has a leader (Kreis—or Landesbauernführer) and the national peasant leader (Reichsbauernführer) is at the same time head of the Reich Ministry of Agriculture. There is also a national farmers' council (Deutscher Reichsbauernrat).

economic as well as demographic reasons. The preservation of peasant farming units sufficiently large to keep the operator and his family fully engaged in agriculture is preferable also because credit applied to farming units efficient in the production of staple foods is a most desirable investment from the viewpoint of national economy.

As inalienable properties, the hereditary farms may not be mortgaged or otherwise pledged as security for debt except in rare instances and then only with the approval of special courts (Anerbengericht). The main reason for eliminating the privilege of mortgaging is that as a rule the principal heir, instead of going into debt on sound business principles for the productive purpose of making improvements, frequently had to borrow considerable amounts for the unproductive purpose of settling the claims of coheirs. Under the new law, the coheirs cannot receive any cash settlement nor are they entitled to interest on the value of an inheritance share in the farm. The principal heir is merely obliged to support them on the farm until they become of age or whenever through no fault of their own they lack the means of self-support. Also, he has to outfit them within reasonable limits when they leave the farm. For this purpose and for many other family expenditures (college education, dowry, etc.) many a German farm had been excessively mortgaged.

Foreclosure or other legal distraint is forbidden in event of default on debt payments but an inefficient or unscrupulous owner-debtor on motion of the peasant leaders may be removed as head of a hereditary farm by the special courts which may then transfer the property to the next heir or impose one of the various types of trustee management.[47]

To be sure, encumbrances on hereditary farms contracted before passage of the law must be paid off. If creditors are not willing to have their claims converted into uncallable amortization loans (52 years) they are given negotiable bonds of the Central Agricultural Bank instead. Overindebted hereditary farms are subject to a special debt-adjustment procedure under the general debt-adjustment scheme.

The only safeguards which the law provides for the protection of a creditor making new loans on the personal security of the hereditary farm owner are the removal (Abmeierung) and trusteeship arrangements, since mortgaging and foreclosure on the real estate are ruled

[47] In its present form the Hereditary Farm Law is very similar to the law regulating the legal status of entailed estates (Fideikommisse), the formation of which had been a privilege of the landed nobility and was designed to maintain the families concerned in a powerful economic and social position. For approximately 150 years efforts had been made in Germany to do away with this privilege. It is a curious fact that it was the National Socialist Government which abolished (January 1, 1939) this particular type of entailed estate while previously it had created similar privileges for the peasants. This apparent contradiction is met by the argument that the long-established legal provisions for entailed estates had resulted in an unwholesome state of land distribution while the Hereditary Farm Law is aiming to preserve a desirable distribution of land.

out. This has resulted in a considerable and much discussed credit stringency in the "Erbhof" stratum of German agriculture which lenders, despite the amount of potential business they could do, must necessarily ignore. The problem of supplying such farms with credit has not been satisfactorily solved as yet, and the impression has been gained that there are plans to modify the Hereditary Farm Law. At present, a loophole of the law is being used to an apparently considerable extent in supplying those farms with urgently needed funds. As pointed out above, long-term encumbrances with mortgage security, but without possibility of foreclosure, can be placed on a hereditary farm "subject to approval by the courts" and provided "there are important reasons." Increase of the productive capacity of a farm in the national interest is naturally considered an important reason. The lender must, however, assume supervision of the use of the funds loaned. This rules out most private lenders. It is believed, therefore, that the loans are made chiefly by public credit agencies in close cooperation with the district peasant leaders. In case of default, the lending agency may lay claim to farm products and is thus guaranteed interest and amortization. Accordingly the size of the loan is based on the earning capacity of the farm, regardless of what the valuation would be in the light of real-estate price developments.

If agricultural mortgage lending had not been restricted by the Hereditary Farm Law, we might possibly have witnessed an increase in the mortgage indebtedness of German agriculture beyond its actual growth for the reason that many farmers would have continued to use long-term amortization loans for short-term and possibly unproductive purposes, which happened frequently during the reconstruction period. It is not unlikely that in the interest of the ultimate objectives of German economic policy the present authorities consider a flexible system of personal production credit whose purpose and use are closely controlled more adequate to meet the contingencies of changing economic trends than long-term mortgage schemes which not only make it difficult to control the proper economic use of the funds obtained but also, owing to the stickiness of the fixed charges, frequently cause additional borrowing and increasing indebtedness in periods of depression.

Special Credits (Sonderkredite)

First in importance under this heading are the loans made to interior colonization enterprises or individual settlers and land-improvement credits.[48]

---

[48] For discussion of institutions concerned and loan conditions, see pp. 6–7.

Interim credits granted by the Bank for Interior Colonization and Settlement increased from 289 million mark in 1931 to 419 million in 1935 (most recent figure available), credits to individual settlers during the same period from 5 million mark to 177 million. By the end of 1938 around 1 billion mark were estimated to have been invested in settlement.

For land improvement, 824 million mark were expended during the years 1933 to 1936. It is claimed that the increase in returns resulting from the improvement of 3,814,483 acres is tantamount to taking 1,087,240 new acres into cultivation.

Many German farmers own forest resources which are managed with extreme care. It is not surprising, therefore, that the German credit system includes an institution, the German Countrymen's Bank, Inc. (Deutsche Landvolkbank A. G.), in Berlin, which proposes to finance forest owners directly with long-term mortgage loans for sylvicultural improvements. Judging from the annual reports of the Countrymen's Bank this branch of its business has not gone very far. On the other hand, organized lending to lumber companies, which represents its main business, tends to benefit the forest owners. Two similar institutions—the German Lumber Trade Bank (Deutsche Holzwirtschaftsbank) in Berlin and the South German Lumber Trade Bank of Munich—were merged with the German Countrymen's Bank in 1933.

In addition, the bank makes short-term loans on 3- to 9-month promissory notes to growers of seeds, sugar beets, potatoes, and other crops for whose delivery to business houses or factories these growers have contracts. Some of the bank's short-term loans have been converted into long-term mortgage loans. The agricultural business of the Countrymen's Bank represents only one-fourth of the total. Originally founded (1923) by farmers as a stock corporation to make loans on personal security to small farmers and farm laborers, five-sixths of its capital is now owned by the Central Agricultural Bank. For the latter the Countrymen's Bank also handled settlement interim credits taken over in 1936 by the German Bank for Interior Colonization and Settlement.

Among the credits for the encouragement of particular branches of agriculture, the dairy loans are the most important. Loanable funds are made available mainly by the Central Bank for Cooperatives (Deutsche Zentralgenossenschaftskasse), an agency discussed in connection with the short-term credit system, and by the Central Agricultural Bank through the cooperatives and to some extent also through the savings banks. Some agricultural credit institutions make dairy loans independently. Interest rates on dairy loans range from 4 to 5.25 percent; in some instances the Reich Government pays subsidies to bring the rate down to 4 percent. The duration for dairy

loans is 10 years. For sheep breeding, special bank consortia are providing 14 million mark, 6.5 million of which were employed by 1937. Purchase of flax and hemp retting equipment is financed with a guaranty of the Reich Government up to 11.5 million mark. Around 1 million were loaned for the installation of distilling (potato) equipment.

To increase crop yields in general special loans (Betriebsaufbaudarlehen) are made to farmers who otherwise would not be able to improve their technique of production. Special reserves (Sondervermögen) of the Central Agricultural Bank consisting of accumulated net profits amounting to around 40 million mark have been drawn upon in this connection to the extent of 32 million, but the Reich Government has appropriated 70 million for the same purpose. The loans are to be used for the purchase of livestock and equipment as well as the remodeling and expansion of existing buildings. They carry an interest charge of 2.5 percent, and are to be repaid after two years of respite in 16 semiannual installments (total duration 10 years). Under equally favorable conditions loans for the construction of farm laborer dwellings are being made mainly by the Preussische Landesrentenbank (page 6) which so far has supplied 55 million mark.

Free grants equal to one-fourth of the cost are made by the Reich Government in connection with the construction of grain and forage silos; other subsidies are granted for the construction of manure pits, fencing of grass land and its improvement and transformation into plowland, augmentation of the number of small livestock, purchase of farm household equipment, etc.

Tenancy Credit

Between the mortgage and personal credit systems stands that for tenants. Although of minor importance since only 11 percent of the total agricultural area of Germany is farmed by tenants, it includes nevertheless 22 institutions, among which the German Bank for Tenants in Berlin (Deutsche Pachtbank), founded in 1924, is the largest.[49] Before the war tenants had as a rule sufficient private funds to furnish operating capital and equipment for the rented farm. Frequently the landowner rented his equipment to the tenant. Under postwar economic conditions, however, there arose a definite need for financing tenants. In view of the efforts made by the

[49] The bank was organized by 33 tenants as a cooperative and has now around 1,500 members. Aside from making loans to tenants it serves them as a saving and general banking institution. Loanable funds for ordinary tenancy credit are obtained in the money market and by discounting tenants' promissory notes with the Central Bank for Cooperatives and the Reichsbank. For special credits such as loans in connection with debt adjustment in East Germany and to increase crop yields, the bank distributes funds placed at its disposal by the institutions in charge of the particular program (Industrial Bank, Reich Government and Central Agricultural Bank). However, within the general debt-adjustment scheme the bank uses its own funds.

National Socialist Government to have German farmers till their own soil, it seems paradoxical that the tenant credit system was maintained and in fact reinforced in 1937 by legislation which aims at the gradual introduction of standardized tenant contracts having a duration of 12 years in the case of small farms and of 18 for large farms. In explanation it may be said that the government wishes to aid those sons of farmers who do not inherit a farm by enabling them to become tenants and to establish themselves as farm owners on land not subject to the Hereditary Farm Law after they have saved some purchase money as tenant farmers. Already there appears to exist a certain conflict of interest between the Bank for Tenants and the Bank for Interior Colonization and Settlement, the latter having taken over much land from large estates which otherwise would have been tenanted.

It is particularly interesting to note that landlords are also assisted by the bank, for in order to keep in business a tenant farm on which a loan has been made, it becomes at times necessary to finance the landlord with a mortgage loan.

Doing general banking business is desirable for all institutions in the tenancy credit field because it enables them to build up assets beyond the sums represented by the security value of the total inventory, including livestock, part of which remains security also for the landlord for rent payment in case of default. Loans made against chattel mortgage security do not exceed 25 percent of the conservatively appraised value, have a duration of from 3 to 5 years, and carry from 5.5 to 6 percent interest, commissions and administrative expenses included. In the debt-adjustment procedure for tenant farms, chattel mortgage security is accepted for long-term amortization loans which may have a duration of 52 years, but become due in full when the tenant contract ends. The interest is 5 percent in this case. All tenant credit institutions are obliged to make current examinations of farm accounts and to assist farmers with practical advice on business and operating problems. The cost of the farm-service program (Wirtschaftsberatung) is included in the interest rate. Short-term credits usually are secured by 90-day promissory notes which, it seems, are prolonged almost indefinitely if need be. It is understood that the bank promises a priori to prolong notes for 3 years. The interest rate on short-term loans varies with the discount rate of the Reichsbank and is on the average 2.5 percent above it.

Agricultural Credit on Personal Security; Short- and Medium-Term Credit

Structure of Short- and Medium-Term Indebtedness

THE German literature on agricultural credit does not differentiate between short and intermediate-term credit. Short-term credit which is given for a duration of from 3 to 9 months as well as medium-term credit of from 9 months to 3 years are generally discussed together under the heading personal credit even though collateral of various kinds might have been given. Of the 12.1 billion mark total indebtedness in 1938, 2.4 billion or 20 percent represented "personal credit." As shown in table 13, page 57, the total of personal credit was much larger during the period of reconstruction and a considerable portion of this has now been "frozen" into long-term obligations under the various debt-adjustment schemes. However, there are indications of a new increase in the personal debt.[50]

Statistical data on the personal debt structure of all farms in Germany are not available. A sample study made by the Central Agricultural Bank, however, affords some idea of the types of short- and medium-term debt involved.

TABLE 8.—STRUCTURE OF PERSONAL INDEBTEDNESS, JULY 1, 1937

Region	Type of debt	Percentage of total personal indebtedness: Farms having less than 18.5 acres	Farms having 18.5 acres to 309 acres	Farms having more than 309 acres
		Percent	*Percent*	*Percent*
East Germany	A	----------	73	86
	B	----------	25	12
	C	----------	2	2
Central Germany	A	----------	78	87
	B	----------	21	12
	C	----------	1	1
North-West Germany	A	----------	79	86
	B	----------	20	12
	C	----------	1	2
West-South Germany	A	70	73	----------
	B	29	25	----------
	C	1	2	----------

A—loans made against the security of negotiable promissory notes, agricultural paper and other collateral (inventory, crops) simple I. O. U.'s and advances on current accounts (overdraft).
B—merchandise, bills, and rent unpaid.
C—taxes unpaid.
The weighted national average is as follows: A—76 percent; B—23 percent; C—1 percent.
Source: *Die Kreditlage der deutschen Landwirtschaft im Wirtschaftsjahr 1936/37*, p. 21.

[50] For instance, farms whose indebtedness had been definitely adjusted under the Osthilfe scheme could not be prevented from incurring new personal debts after a very brief period of freedom from debt. Approximately 75 percent of the farms whose debts were adjusted and which should not accumulate new debts without endangering their financial situation are again overindebted and it is rather significant that the degree of indebtedness is greater on peasant farms than it is on large estates. (For details, see Drescher, op. cit., page 77.)

Comparative Importance of Sources of Personal Credit

Despite the well-organized institutional system for personal credit, noninstitutional sources still play a role today. Loans take the usual form of merchant's credit and favors done by relatives and friends. The cooperatives appear to be first in importance. In the total short- and medium-term indebtedness of 2.4 billion mark as of December 31, 1937, the share of the cooperatives amounted to 1.7 billion, of which 1.2 billion represented credit granted in the form of overdrafts on current accounts and merchandise, while 541 million were cash loans. The savings banks are much less important in the personal credit field than in that of mortgage credit. In 1937 they had loaned to agriculture 1.5 billion mark, of which 1.17 billion consisted of mortgage loans. Among the commercial banks some of the small and medium-sized institutions have attained some importance in making short-term loans to farmers, particularly owners of large estates, while the typical large banking corporations are less active in this field.

A statistical picture of the comparative importance of personal credit sources can be obtained only from the sample study made by the Central Agricultural Bank.

Table 9.—Sources of Personal Credit, July 1, 1937

Region	Source of credit	Percentage of total personal credit		
		Farms having less than 18.5 acres	Farms having 18.5–309 acres	Farms having more than 309 acres
		Percent	*Percent*	*Percent*
East Germany	Savings banks		9	5
	Cooperatives		33	28
	Commercial and other banks		14	20
	Noninstitutional sources		44	47
Central Germany	Savings banks		3	2
	Cooperatives		43	20
	Commercial and other banks		16	32
	Noninstitutional sources		38	46
North-West Germany	Savings banks		18	9
	Cooperatives		16	5
	Commercial and other banks		32	29
	Noninstitutional sources		34	57
West-South Germany	Savings banks	13	14	
	Cooperatives	22	23	
	Commercial and other banks	15	21	
	Noninstitutional sources	50	42	

Note.—A national weighted average of these figures is not available. This is particularly regrettable because the share of the cooperatives appears to be much smaller in this table than results from the comparison of absolute figures for the estimated total of personal credit and credit extended by the cooperatives. Difference of data (July/December) may be responsible for this and perhaps too the sample study is not quite representative in this respect.

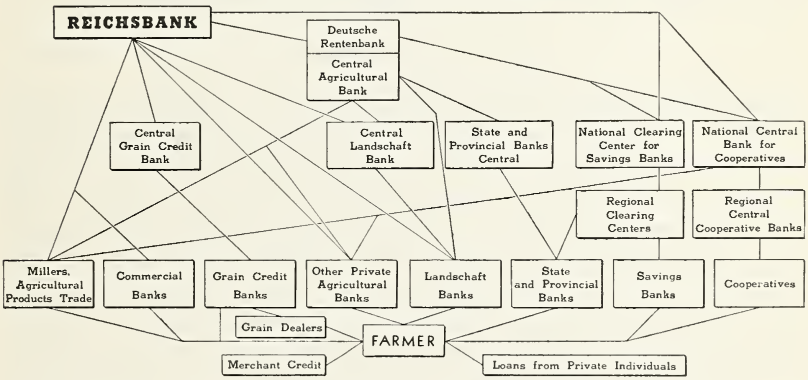
Source: *Die Kreditlage der deutschen Landwirtschaft im Wirtschaftsjahr 1936/37*, p. 22.

Interrelationships Between Specific Sources

In the personal credit system we again encounter a number of institutions which also formed part of the mortgage and long-term credit system, namely the Landschaft banks, provincial and state banks, and savings banks with their respective central and clearing organizations. Making their appearance for the first time are the commercial banks, the specialized agricultural private banks, and the Reichsbank as the ultimate discount agency of the country (for details see page 27). The lines in chart III presented below suggest either that there exist possibilities for discount of agricultural paper between the institutions concerned or that funds for extending personal credit are going through the channels indicated. The open money market on which all these institutions rely finally has been omitted from the chart owing to the confusion of lines which its inclusion would have produced.

Chart III

SOURCES OF SHORT- AND MEDIUM-TERM (PERSONAL) CREDIT



In comparing this chart with chart I which shows the mortgage credit organization it will be noticed that in the personal credit business the National Clearing Center for Savings Banks and the State and Provincial Banks Central, Inc., have direct relations with the Central Agricultural Bank. In the field of mortgage credit, on the other hand, it is the regional clearing centers of the savings banks and the individual state and provincial banks which have the direct connections with the Central Agricultural Bank. Call-money clearing, the chief function of the respective national centrals in the personal credit field, necessitates a somewhat more centralized organization and continuous contact with the Central Agricultural Bank while the distribution of mortgage credit funds to various regions can be taken care of directly by the Central Agricultural Bank without burdening the national clearing centers.

There is also a line of connection between the state and provincial banks and the regional clearing centers of the savings banks. As many of the state and provincial banks accept deposits, they have joined the group of regional clearing centrals of the savings bank (Girozentralen). In fact, it was commonly believed that owing to the increasingly greater similarity in objectives and spheres of activity of the two types of institutions in the personal credit field, the national centrals (Landesbankenzentrale and the Deutsche Girozentrale) eventually would merge.

Characteristics of the Institutions in the Personal Credit System

Since essential information on the Landschaft, state and provincial as well as the savings banks has been or will be given in detail as far as organizational aspects are concerned, and since in a general way the functions of the Reichsbank and Central Agricultural Bank have been touched upon, this particular section will be devoted to a discussion of the remaining institutions of the personal credit system. The commercial banks, of course, need no particular comment.

Various Institutions

Special grain credit banks were founded as stock corporations during the inflation when grain merchants who as a rule financed transactions themselves were not in a position to do so any longer and became dependent on commercial bank credit at high interest rates. The Central Grain Credit Bank, founded in 1924 to strengthen the position of the individual banks, made possible organized rediscount with the Reichsbank and later on distribution of credits obtained from the Central Agricultural Bank. At the same time it served as a supervisory agency for the individual banks which made loans to merchants and farmers alike on the security of promissory notes, bills of lading, and warehouse receipts. Since 1933 the fixing of grain prices and the regulation of the grain trade made many of these institutions superfluous. However, an unknown number, including the central, still exist. The creation in 1931 of a special type of warehouse receipt negotiable by endorsement facilitates their business, which consists in making loans up to 70 percent of the value of the grain to any holder of grain, including the farmer, on promissory notes secured by negotiable warehouse receipts. The business of the central has been expanded to include the hops and fishing industries.

Some of the specialized institutions included in the group "other private agricultural banks" are the: German Countrymen's Bank (page 44); the Bank for Agriculture (Bank für Landwirtschaft), a stock corporation founded in 1908, which takes care of the general banking and short-term credit business of farmers and took over in

1935 the German Peasants' Bank (Deutsche Bauernbank, 1923), a banking institution for peasant associations; the Sugar Credit Bank (Zuckerkreditbank, stock corporation, 1923), which makes loans to sugar-beet growers and refineries; the Gardener's Bank (Deutsche Gartenbankkredit A. G., stock corporation, 1925), which finances fruit and truck crop growers; the Finance Corporation for Agricultural Machinery (Landmaschinenbank A. G.), stock corporation established during the twenties and owned by the Central Agricultural Bank.

The Agricultural Credit Cooperatives

Space limitation prohibits a review of the history, principles, and economic background of the cooperative movement in Germany which began to acquire practical importance around the middle of the last century. It is emphasized, however, that today there is no longer the former striking contrast between the cooperatives of the Raiffeisen and the Schulze-Delitzsch type, partly as a result of the Cooperative Societies Act (1889) which enforced greater uniformity in organization and administration, partly because the Raiffeisen type lost its humanitarian features with the progressive modernization of business life. Roughly speaking, the main difference is that the Schulze-Delitzsch cooperatives are predominantly urban while the Raiffeisen cooperatives are rural. This does not mean that the latter are composed exclusively of farmers. In agricultural East Germany, for example, farmer membership in rural credit cooperatives frequently exceeds 80 percent, while in the industrial West there are rural credit cooperatives with as little as 10 percent farmer membership, but nevertheless called agricultural credit cooperatives. The average for farmer membership in all agricultural cooperatives is around 63 percent. Moreover, close to 50 percent of the shares in agricultural credit cooperatives are owned by nonfarmers, such as craftsmen, laborers, and employees. At the same time there are craftsmen's or artisans' credit cooperatives which make loans to farmers provided the borrower becomes a member.

Another difference can be found in their principles regarding liability of the cooperators. Most of the urban cooperatives are what might approximately be termed limited liability companies (Gesellschaft mit beschränkter Haftpflicht). Members are liable in most of these cooperatives to the extent of 100 percent of their shares; in others the statutes prescribe liability to the extent of 3 or even 10 times the share holdings. With the agricultural cooperatives, and this is especially true of 85 percent of all credit cooperatives, unlimited liability (unbeschränkte Haftpflicht) prevails; that is, the cooperators are liable jointly and severally with all their assets regardless of the amount of shares held. Finally, the urban cooperatives maintain a salaried staff while the business of agricultural cooperatives is as a rule administered by unpaid officers.

Of the 50,755 cooperatives existing in Germany in 1937, 40,487 were members of the National Federation of German Agricultural Cooperatives (Reichsverband der deutschen landwirtschaftlichen Genossenschaften), the remaining 10,269 of three other national organizations,[51] which include practically all nonagricultural cooperatives. It seems that all agricultural cooperatives belong or will belong to the National Federation of German Agricultural Cooperatives. At the end of 1937 there were 295 unaffiliated cooperatives (wilde Genossenschaften) whose inclusion in the national organization was expected to take place during 1938. The National Socialist regime has not changed the structure of the cooperative organization to any noteworthy extent. Therefore, the business of the cooperatives goes on as previously within the scope of the national agricultural policies developed by the government.

The 40,487 agricultural cooperatives of the National Federation in 1937 were distributed as follows:

	Number
Credit cooperatives	17, 890
Marketing and purchasing cooperatives	14, 856
Cooperatives for farming operations (electricity, threshing, breeding, etc.)	7, 607
Central cooperatives	134

Many, if not most, of the credit cooperatives belong to the mixed type which also do cooperative purchasing and selling of goods for their members.

The 134 central cooperatives, which are overhead central business organizations of the various specialized types of cooperatives, include 25 regional central cooperative credit banks for the clearing of funds becoming available as surpluses or needed in local credit cooperatives. Creation of these institutions was made possible by the Cooperative Societies Act since it permitted a cooperative to join another as a member.

The economic importance of the agricultural credit cooperatives may be illustrated by the following figures:

As of December 31, 1936:		*Million marks*
Total of balance sheet sums of all cooperatives		4, 735
Credit cooperatives	2, 920	3, 733
Central credit banks	813	
Total volume of business during year		39, 659
Credit cooperatives	17, 130	34, 936
Central credit banks	17, 806	

The number of agricultural credit cooperatives decreased from 19,767 in 1924 to 17,890 in 1937 but simultaneously their total deposits increased from 81 million mark to 2.6 billion, of which 2.249 billion represented savings deposits and 351 million deposits on current account.

[51] German Federation of Cooperatives (Deutscher Genossenschaftsverband), Berlin; National Federation of Home Builders (Hauptverband deutscher Wohnungsunternehmungen), Berlin; National Federation of German Consumers' Cooperatives (Reichsbund der deutschen Verbrauchergenossenschaften), Hamburg.

It is interesting to note that a large portion of the savings deposits appears to come from nonmembers.[52] Since 1935 deposits have exceeded loans made, which in 1937 totaled 2.2 billion mark including mortgage loans. Thus, the total deposits made by local credit cooperatives with the regional central banks have also grown. At the end of January 1938 they amounted to 558 million mark as against loans made by the centrals to local credit cooperatives amounting to 204 million.

As shown in Chart III the National Central Bank for Cooperatives (Deutsche Zentralgenossenschaftskasse-Deutschlandkasse) is at the head of the cooperative financial system.[53] As of January 31, 1938, 13 of the 25 regional banks had credits with the National Bank while the others had debts. Nevertheless there was, on that date, a credit in favor of the regional centrals amounting to 172.6 million mark against 88.3 million of debts, resulting in a net credit balance of 84.3 million mark. This favorable account was accumulated in spite of

[52] The agricultural credit cooperatives have around 2 million individual members who are likely to have a savings account with the cooperative. In fact, some cooperatives enforce by statute a certain amount of savings on the part of members. In addition, thrift is being encouraged among nonmembers by the sale of savings stamps which makes possible deposits in very small amounts (below one-half of one mark) or by affiliation with the cooperatives of school savings clubs. Since enactment of the Hereditary Farm Law the cooperatives have created special savings accounts (Erbhofsparbuch) for those members of the farmer's family who are, so to speak, disinherited by the law with the object of enabling them to accumulate gradually what they will need when they leave the farm. In all these endeavors the cooperatives obviously compete, at least in rural areas, with the savings banks which also make strenuous efforts to attract funds by similar methods. Besides promoting savings clubs in schools, youth and fraternal organizations, business enterprises, government offices, and even in the army, the savings banks have distributed so far to 3 million homes, savings chests whose contents (30 million mark in 1937) are collected in regular intervals by an especially organized collection service. Close to half a million new savings accounts have been opened as a result of the practice of presenting families on special occasions (marriage, childbirth, first school day, graduation, etc.) with credit slips of from 1 to 3 mark, which are honored by the savings bank if a new account is opened.

[53] The National Central Bank for Cooperatives has existed in its present form since 1932 when the Central Bank for Cooperatives of Prussia, an institution of the Prussian Government founded in 1895, was made an agency of the Reich Government to serve as a general banking and particularly a lending and depository agency for all types of cooperatives in Germany, indirectly through the intermediary of the respective centrals including the regional central banks for cooperative credit. However, owing to historic affiliations which it proved impossible to undo, some of the craftsmen and artisan cooperatives are at the same time served directly by the cooperative banking division of the Dresdner Bank. The capital of the National Central Bank for Cooperatives (99.7 million mark) was furnished mainly by the Reich Government (80 million mark) but there also participated the regional central banks (13.2 million) and the Central Agricultural Bank (5 million) as well as unspecified enterprises (1.5 million). Its reserves are 10 million mark. Despite participation of the regional central banks for cooperatives, the National Central Bank is organizationally not a part of the cooperative system but an autonomous public agency under the supervision of the Reich Ministry of Finance.

Table 10.—Distribution of Various Types of Loans Made by Agricultural Credit Cooperatives, 1936

Type of loan	Cooperatives having assets (thousand mark)							Weighted average
	Up to 20	Over 20 up to 50	Over 50 up to 100	Over 100 up to 350	Over 350 up to 500	Over 500 up to 1,000	Over 1,000	
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Mortgage loans	3.1	5.0	7.7	9.4	11.1	13.6	33.2	14.2
Personal cash loans	18.4	20.5	21.8	17.8	13.8	9.8	9.4	15.2
Overdraft on current account	31.1	35.6	38.1	45.8	51.9	55.9	40.1	45.2
Credits arising out of merchandise delivery and services	10.8	8.4	6.2	3.8	2.4	1.9	1.6	3.6
Total as a percentage of balance sheet sum	63.4	69.5	73.8	76.8	79.2	81.2	84.3	78.2

Source: Adapted from Trumpf, A. W., *Das Genossenschaftswesen in der deutschen Landwirtschaft.* Report submitted to the First International Congress of Agricultural Credit, Naples, October 1938.

the fact that the local agricultural credit cooperatives had absorbed, by the end of 1937, around 316 million mark of 4.5 percent government bonds.

While the cooperatives can accept deposits from nonmembers, they are not allowed to lend to them. The most important form of lending is by overdraft on current account on which from 6.25 to 6.5 percent interest is being charged, while cash loans on personal security are made at 5 percent and first mortgage loans at 4.5 percent. The distribution of the various types of loans is shown in table 10.

The larger the cooperative the smaller the percentage of cash loans on personal security; as the cooperative grows, the demand for mortgage security, too, becomes greater.

Statistical Survey of Agricultural Indebtedness

Development of Indebtedness

DETAILED statistics on the steady growth of total agricultural indebtedness in all of Germany before the war are not available. However, in Prussia alone the annual net increase in mortgage loans rose from 400 million mark in 1900 to about 800 million mark in 1913.

Total indebtedness at the end of 1913 has been estimated by the Berlin Institute for Business Cycle Research (Institut für Konjunkturforschung) at 17.5 billion mark of which 12.7 billion were mortgage debts and other long-term encumbrances. Opinions on the prewar short-term indebtedness vary. Mössner [54] believes that short-term indebtedness amounted to from 5 to 7 billion, suggesting an aggregate total indebtedness of from 18 to 20 billion. On the other hand, German agriculture had offsetting claims against the national economy (nonagricultural investments, bank deposits, etc.) estimated at from 4 to 5 billion mark, which would bring net total indebtedness down to around 13 billion.[55] Disregarding this latter aspect and assuming a total of 17.5 billion to be correct, total indebtedness was equivalent to 25 percent, mortgage indebtedness to 18 percent, of the total farm assets estimated conservatively by Mössner at 70 billion mark.[56]

Similar postwar estimates are not available. Data published by the German Central Agricultural Bank (Deutsche Rentenbank-Kreditanstalt)[57] and based on the July 1, 1937, indebtedness of 12,250 sample farms throughout Germany would indicate that total indebtedness amounts to 50 percent, mortgage indebtedness including capitalized annuities to 40 percent, of the total 1935 tax value of agricultural property.

The 1913 and 1937 percentages are not comparable because the 1913 figures express indebtedness as a percentage of the total assets of all farms, including those having no debts at all, while the 1937 figures are based on the 12,250 sample farms, only 4 percent of which were free of debt against 35 percent of all farms throughout Germany

[54] Mössner, K. E., *Das deutsche Bodenkreditsystem*, Berlin, 1934, p. 77.

[55] Drescher, Leo, *Entschuldung der Ostdeutschen Landwirtschaft*, Berlin, 1938, p. 1.

[56] Mössner, K. E., *Das deutsche Bodenkreditsystem*, Berlin, 1934, p. 76.

Value of:	*Billion mark*
Land	34
Buildings	16
Livestock and equipment	17
Other inventory	3

In his book *Deutschlands Volkwohlstand 1888–1913*, Berlin, 1913, Helfferich estimates the value of farm land at 40 billion mark.

[57] *Die Kreditlage der deutschen Landwirtschaft im Wirtschaftsjahr 1936/37.*

reported to be free from mortgage debt in that year.[58] Although the results of the sample study are propably representative as far as the debt structure of indebted farms is concerned, they do not seem to be typical of the percentage of indebtedness measured in terms of the total taxable value of all agricultural property, including all debt-free farms.

Inflation had reduced farm debts in 1923 to practically zero, but revaluation of most farm mortgages at 25 percent of their gold mark value reestablished in 1925 a farm mortgage debt of 4 billion mark of which 2.75 billion represented revalued farm mortgages and 1.25 billion fresh borrowing against mortgage security.[59] The subsequent development of total agricultural indebtedness is shown in table 11.

TABLE 11.—ESTIMATED TOTAL INDEBTEDNESS AND INTEREST BURDEN OF GERMAN AGRICULTURE

Year ending June 30	Total indebtedness [1]	Interest due	Gross cash income	Interest burden as a percentage of gross cash income	Year ending June 30	Total indebtedness [1]	Interest due	Gross cash income	Interest burden as a percentage of gross cash income
	Million mark	*Million mark*	*Million mark*	*Percent*		*Million mark*	*Million mark*	*Million mark*	*Percent*
1913 [2]	17, 500	750	10, 800	7. 0	1931–32	12, 200	1, 010	7, 400	13. 6
1925–26	8, 000	610	8, 100	7. 5	1932–33	11, 800	850	6, 400	13. 3
1926–27	8, 700	630	8, 300	7. 6	1933–34	11, 600	730	7, 400	9. 9
1927–28	10, 500	790	9, 300	8. 5	1934–35	11, 400	650	8, 300	7. 8
1928–29	11, 400	920	10, 200	9. 0	1935–36	11, 300	630	8, 700	7. 2
1929–30	11, 900	950	9, 800	9. 7	1936–37	11, 200	580	8, 900	6. 5
1930–31	12, 400	950	8, 600	11. 0	1937–38	11, 200	570	9, 500	6. 0

[1] Not including capitalized annuities (Renten and Altenteile).
[2] Prewar territory, year ending December 31.

Source: Computed from *Die Kreditlage der deutschen Landwirtschaft im Wirtschaftsjahr 1936/37*, p. 10, and previous issues; *Agrarpolitik und Agrarkredit*, Institut für Konjunkturforschung, Vierteljahrshefte zur Konjunkturforschung, April, 1934, p. 25; Kokotkiewicz, Gerhard, *Der Immobiliarkredit*, Institut für Konjunkturforschung, Sonderheft 30, 1932, p. 22. Bauer, W,, and Dehen, P., *Landwirtschaft und Volkseinkommen*, Institut für Konjunkturforschung, Vierteljahrshefte zur Wirtschaftsforschung, Heft 4, 1938–39, p. 414.

According to reliable unpublished data the estimated total agricultural indebtedness as of December 31, 1937, was distributed as shown in table 12.

Despite the gradual decrease of total indebtedness since the 1930–31 peak of 12.4 billion, or approximately 14.2 billion including capitalized annuities, it appears that the mortgage debt has been increasing. Not only has it been estimated at 8.8 billion mark on December 31, 1937, as against 7.3 billion in 1931, but also the discontinued series of figures shown below gives evidence that the mortgage debt was on the increase prior to 1931. Conversion of short-term loans into mortgage credit has contributed to this development. (See table 13.)

[58] Reply to F. C. A. and U. S. D. A. Joint Survey of Agricultural Indebtedness.

[59] This does not include capitalized annuities nor the 2 billion mark "general mortgage" placed on agricultural property in connection with the currency stabilization. For discussion, see pp. 28–29.

TABLE 12.—TOTAL FARM INDEBTEDNESS, 1937, BY TYPE OF DEBT

Type of debt	Million mark	Percentage of total
Mortgage debt	8, 800	73
Capitalized annuities	900	7
Short- and medium-term obligations	2, 400	20
Total	12, 100	100

Source: Reply to F. C. A. and U. S. D. A. Joint Survey of Agricultural Indebtedness.

TABLE 13.—DEVELOPMENT OF MORTGAGE AND PERSONAL CREDIT DURING THE PERIOD OF RECONSTRUCTION, 1925–32

Year	Long-term and mortgage credit [1]	Personal credit	Year	Long-term and mortgage credit [1]	Personal credit
	Million mark	*Million mark*		*Million mark*	*Million mark*
1925	4, 011	4, 012	1929	7, 217	4, 175
1926	4, 949	3, 779	1930	7, 250	4, 380
1927	5, 764	4, 120	1931	7, 335	4, 438
1928	6, 673	4, 158	1932	7, 201	4. 224

1 Excluding capitalized annuities.

Source: Kokotkiewicz, Gerhard, *Der Immobiliarkredit*, Institut für Konjunkturforschung, Sonderheft 30, 1932, p. 21, and *Vergangenheit, Gegenwart und Zukunft des Agrarkredits*, Berlin, 1934, p. 6.

Further indication that the mortgage debt (including capitalized annuities) has increased may be derived from the following figures:

TABLE 14.—FARM MORTGAGE INDEBTEDNESS, 1928 AND 1937

Item	1928	1937
	Percent	*Percent*
Share of mortgage debt in total indebtedness	72	80
Number of farms having mortgage debts	55	65
Agricultural area mortgaged	70	80

Source: Reply to F. C. A and U. S. D. A. Joint Survey of Agricultural Indebtedness.

Distribution of Indebtedness

To illustrate the territorial distribution [60] and the degree of indebtedness several items from the statistically very detailed sample study (*Die Kreditlage der deutschen Landwirtschaft im Wirtsschaftsjahr 1936/37*, pp. 14, 16, 19) made by the German Central Agricultural Bank are shown below.

60 For map of regions, see p. VI.

Table 15.—Total Indebtedness per Hectare (2.471 Acres) and as a Percentage of the 1935 Farm Tax Value, by Regions and Farm Sizes

Region	Mark per hectare, July 1, 1937			Percentage of 1935 tax value		
	Farms having less than 18.5 acres	Farms having 18.5—309 acres	Farms having more than 309 acres	Farms having less than 18.5 acres	Farms having 18.5—309 acres	Farms having more than 309 acres
East Germany		786	641		82	69
Central Germany		707	804		40	46
North-West Germany		580	591		34	37
West-South Germany	522	475		46	41	

The weighted average total indebtedness per hectare (capitalized annuities included) for all sample farms was 630 marks per hectare and the corresponding tax value percentage 50 percent.

Table 16.—Farms Having Debts Within Certain Percentages of the 1935 Tax Value, July 1, 1937

Region	Total indebtedness (percentage of 1935 tax value)	Percentage of all farms having debts		
		Farms having less than 18.5 acres	Farms having 18.5—309 acres	Farms having more than 309 acres
		Percent	*Percent*	*Percent*
East Germany	1–60		25	30
	61–100		31	36
	101 or more		44	34
Central Germany	1–60		73	60
	61–100		18	25
	101 or more		9	15
North-West Germany	1–60		77	72
	61–100		16	20
	101 or more		7	8
West-South Germany	1–60	62	69	
	61–100	12	16	
	101 or more	26	15	

Of the 12.250 sample farms studied, 4 percent were free of any debt. The degree of indebtedness of all other sample farms shows the following distribution, as of July 1, 1937:

Percentage of 1935 tax value:	*Percentage of farms having debts of degree indicated*
1–10	10
11–30	15
31–60	21
61–100	26
101–150	18
Above 150	8

Table 17.—Mortgage Indebtedness, Including Capitalized Annuities, as a Percentage of Total Indebtedness, July 1, 1937

Region	Farms having less than 18.5 acres	Farms having from 18.5 to 309 acres	Farms having more than 309 acres
	Percent	*Percent*	*Percent*
East Germany		88	88
Central Germany		76	80
North-West Germany		74	75
West-South Germany	73	74	

The weighted average for all sample farms is 81 percent.

Part II

Some Technical Aspects of the Basic Farm Mortgage Credit System

Organizational Structure of Lending Agencies

Constitution and Direction With Special Reference to Borrower Participation

Landschaften and Landschaft banks.—Essentially the "Landschaften" are mortgage credit associations of agricultural landowners established to extend long-term credit to member-borrowers in consideration of their obligation, as evidenced by first mortgages on farm land, to repay the loans so advanced in accordance with a systematic amortization plan. Membership in the six so-called "old" eighteenth century associations, four of which still exist (Silesia, Pomerania, East Prussia, Lüneburg), was made compulsory by law for all farms of a specified size and type (estates owned by nobles—Rittergüter) regardless of whether the owner borrowed from the Landschaft. The so-called "incorporated" members naturally had an irrefutable claim to credit. The "old" Landschaften also made loans to "nonincorporated" estates, but these did not thereby become members.

In the "new" Landschaften, membership is acquired voluntarily. The borrower becomes a member as soon as his mortgage is recorded in the official mortgage register. Membership terminates on December 31 of the year following that during which the borrower has repaid the loan. The new uniform statutes for Landschaften imposed in 1934 adhere generally to these principles. However, in the area where the four "old" Landschaften operate, incorporated nonborrowers nevertheless remain members. Such is the case, for instance, with the Government of Prussia which, owing to its large holdings of farm real estate in the provinces involved, is always a member of the respective Landschaft.

Traditionally termed cooperative, the chief mutual characteristic of the Landschaft is the joint liability of members for the bonds. As will be seen below, this liability has various modifications. But the

principal feature of cooperative business organization, namely distribution of assets in case of liquidation and of profits in the form of dividends, is lacking as the Landschaften are nonprofit public enterprises.[1] Any income accruing in excess of the amounts required for expenses and reserves is allocated to the sinking fund which consists of the repayment accounts of the indebted members The sinking fund represents in fact a reserve security against losses.[2]

Similarly, until 1931 the profits of the Central Landschaft were not distributed to the member Landschaften. These small profits—originating from bonds sold at premiums, unclaimed bonds called but not presented, and unclaimed coupons—were invested in provincial Landschaft or government bonds as a separate reserve. Gains beyond the amount deemed necessary for such a reserve accrued to the advantage of the borrowers, both by being used in reducing charges for administrative expenses and by allocation to the sinking fund. As will be seen later, the reorganization of the Central Landschaft in 1931 brought important changes in this respect.

Various forms of working organization characterize the Landschaften but a broad general form has prevailed. Each association is governed by an executive board whose chairman is the Landschaft director. This board or directorate is in effect a public authority since its members are appointed by and work under the direct supervision of the state government. Thus, the Landschaften are public agencies and possess autonomous rights which empower the directors to enforce collection of payments and to effect forced sale without suing in the courts. Landschaft employees have the standing of government employees. A number of committees, each with specified duties, assist the directorate. Landschaft members are obliged to accept certain unpaid offices if requested. Ultimate authority is nominally vested in the general assembly of delegates chosen by the members of the association but there is no question that the decisions of the directors influence the assembly rather than vice versa.

The Central Landschaft is managed by a board made up of the chief executive officers of each member Landschaft and its policies are under the general supervision of the Prussian Minister of the Interior.

The Landschaft banks as well as the Central Landschaft Bank are organized as independent banking institutions under the general

[1] Among the agricultural mortgage credit associations of borrowers there is only one which exemplifies a true cooperative association instituted under the Cooperative Societies Act, namely the Agricultural Bank of Bavaria (Bayerische Landwirtschaftsbank). Members must buy one share of stock of 100 mark and for every 5,000 mark borrowed, they must buy an additional share of 100 mark. At present the minimum share is 50 mark. Each share represents a tenfold liability against losses. Although the bank was founded by the Bavarian State Government (1896), it is usually classified as a private mortgage bank. The agricultural credit cooperatives cannot be similarly classified even if they are large enough to be considered as banks in their mortgage loan business because they are not allowed to issue bonds.

[2] For detailed discussion of the sinking fund, see p. 86–87.

direction of two presidents, a board of directors, and the general assembly of members. The borrowers, of course, have no influence on the business policies of the banks.

State and provincial banks.—Inasmuch as the liabilities of these public banking institutions (provincial banks in Prussia, state banks outside of Prussia) are guaranteed by the government of the respective locality (state, province, or district), borrowers take no part in shaping their business policies and management is vested in committees appointed by the public authorities involved. There are considerable differences in the general constitution and method of management of the 52 state banks, state-owned credit institutions, and provincial banks. The granting of farm mortgage credit is mandatory with 15 of them; land improvement credit with 19. Despite the fact that owing to their public character the banks are not endeavoring to make large profits, their earnings before the war amounted to sizable sums which were devoted either to reducing the cost of credit or to purposes of common welfare.

The central institution coordinating the business of all state and provincial banks, the "Landesbankenzentrale" at Berlin, is organized as a joint stock company with the member institutions as shareholders entitled to have a voice in shaping policies.

Private mortgage banks.—Obviously borrowers have no influence on the policies of private mortgage banks which are profit-seeking credit corporations financed with share capital and designed to permit payment of dividends to their stockholders.[3] According to the Mortgage Bank Law of 1899 they may incorporate only as ordinary joint stock companies (Aktiengesellschaften) or joint stock companies in which one or more stockholders are liable without limit (Kommanditgesellschaft auf Aktien). A distinction must be made between the so-called "pure" mortgage banks which do no business other than issue bonds and make mortgage loans and the "mixed" type which carry on general commercial banking business. There are only three examples of the latter. The Mortgage Bank Law precludes creation of new "mixed" mortgage banks. Government supervision is exercised by the state in which the bank is located through a government-appointed trustee. Each bank is managed by a board of directors and an executive committee.

Of particular interest is the organization of the central for private mortgage banks, the Union of German Mortgage Banks (Gemeinschaftsgruppe Deutscher Hypothekenbanken) established in 1921. In

[3] Opportunity for profit making by the private mortgage banks lies exclusively in the margin between the interest charged for loans made and the interest borne by the bonds (Zinsmarge). According to economic conditions, the margin varied before the war from 0.25 to 0.75 percent. In connection with revalued mortgages and mortgage bonds it is fixed at 0.5 percent, and for new mortgage loans the government allows the banks a margin of 0.5 percent on large loans and of 0.75 on small loans (see p. 82.)

order to reduce competition and to solve effectively other problems arising out of the community of interest, the six mortgage banks now belonging to the union have not only created interlocking directorates but also set up a common administration without giving up their individual legal status as stock corporations. This arrangement, under which the capital of the members is centralized and profits as well as losses are pooled, strengthens the financial position of each institution as its liabilities are actually secured by the assets of the entire group whose standing is noteworthy because of the soundness of its policies.[4]

Nonspecialized lending institutions.—Most of the savings banks are public agencies established, managed, and supervised by local governmental units (township, city, district). They are not mutual in organization nor do they possess separate legal status. Beyond providing adequate interest returns for depositors and covering expenses, they apply surplus earnings to their reserves. The existing private savings banks are without exception part of the cooperative system.

As explained above, local savings banks belong to a regional clearing center for the purpose of depositing surpluses and borrowing loanable funds. The individual savings banks belonging to a central are liable for any obligations which it might have. However, since the centrals do not deal financially to any large extent with private individuals (deposits, loans) the question of liability never becomes acute. Administrative authority is as a rule vested in several presidents, a board of directors, and an assembly of members. The National Clearing Center (Deutsche Girozentrale-Deutsche Kommunalbank) is organized as an autonomous banking institution with separate legal status as it does business also with third parties. Liability for its obligations is assumed by the entire savings bank system which is under government supervision.

The private insurance companies are organized either as mutual associations or as joint stock companies operating altogether for profit; the public and social insurance institutions are, of course, managed by public authorities. It is evident that the nonspecialized

[4] Reference is frequently made in the literature to other private mortgage bank associations as equally significant. An association of North German mortgage banks (Deutsche Centralbodenkredit Vereinigung) founded in 1923 for the purpose of formulating uniform policies in making loans to municipalities had disintegrated by 1926. Two of its original members merged in the course of time with five other mortgage banks and finally formed the "Deutsche Centralbodenkredit A. G."—that is, a new mortgage bank issuing bonds of its own and servicing the bonds previously issued by the banks merged with it. The new bank is a member of the Union (Gemeinschaftsgruppe) referred to above.

In 1923 six private mortgage banks in South Germany also formed an association called "Arbeitsgemeinschaft Süddeutscher Hypothekenbanken" for the same purpose of formulating uniform policies in making loans to municipalities and making stable-value mortgage loans during the inflation. In this connection they created a common banking institution, the Stable Value Mortgage Bank of Stuttgart (Festwertbank) which was liquidated after the currency stabilization. The "Arbeitsgemeinschaft" still exists as an association for the protection of mortgage bank interests and common formulation of general policies but the members carry on their business independently. There is no common administration, no pooling of gains and losses as in the case of the "Gemeinschaftsgruppe."

institutions granting farm mortgage credit offer no organizational characteristics which would be of interest from the viewpoint of borrower participation.

Capital Requirements and Borrower's Ownership Equity in Lending Institution

The *Landschaften* have no paid-in capital and no shareholders. Their operations were started with government grants which were originally intended to defray the initial expenses of organization and establishment rather than to provide the Landschaften with a fixed and permanent amount of capital for lending. Although it is the foremost principle of the Landschaften not to make profits, ownership equities (Eigenmittel or eigentümliche Fonds) nevertheless were formed in the course of time through investment of moderate surplus earnings, for these could be neither distributed to the borrower-members nor used for making mortgage loans. Usually they were left to accumulate as special reserves for losses. Thus a member has no individual and direct ownership equity in his Landschaft. Several Landschaften which had set up Landschaft banks derived considerable earnings from the varied and profitable banking operations of the latter. Since, however, all earnings of a Landschaft are used in various ways to make credit cheaper for the members, one might say that borrower-members have a collective and indirect ownership equity in their respective Landschaft.

The *Central Landschaft* originally had no capital stock either. In 1931 when, at the instigation of the Central Agricultural Bank (Rentenbank-Kreditanstalt), it was reorganized with the objective of improving the price and marketability of member Landschaft bonds by purchases in the open market (Kursstützung), it was also provided with a capital of 15 million marks, of which 12 million came from the Central Agricultural Bank. Of the additional 3 million from member Landschaften, 2.1 million have not been paid in so far. In case of liquidation the paid-in capital shares are returned to the member institutions while accumulated reserves are used for subsidizing agricultural projects of public interest. But three-fourths of whatever annual profits the Central Landschaft is able to make is distributed to the member institutions as a dividend and only one-fourth accrues to the reserve fund until the latter amounts to 20 percent of the capital. If this figure is reached and if profits are so large that they would result in a dividend exceeding 5 percent, special reserves may be formed or the capital may be raised. It is evident, therefore, that since 1931 the member Landschaften have had an ownership equity in the Central Landschaft although owing to the

peculiar structure of the provincial Landschaft system, it cannot be called a borrower's ownership equity from the viewpoint of the individual borrower-member.

The capital of the *Landschaft banks* is supplied by the Landschaften. In the case of the *Central Landschaft Bank*, the Central Agricultural Bank is an important shareholder together with member Landschaften and Landschaft banks. As far as ownership equity is concerned, there is a difference between the Landschaft banks and the Central Landschaft Bank. While the members of a Landschaft have no equity in the Landschaft bank and only the Landschaft as an institution owns the bank, the Central Landschaft Bank is owned by the member institutions.

The German Mortgage Bank Act of 1899 did not prescribe any minimum figure for the share capital of the *private mortgage banks*, but its size was tied to the amount of bonds in circulation which could not be more than 15 times—since 1926, 20 times—the paid-in capital and the special reserves covering mortgage bonds.[5] In other words, if a private mortgage bank has reached this limit and desires to issue additional bonds, paid-in capital or reserves must be raised. Since the banks are organized for profit the borrowers naturally have no ownership equity in them. The same is true of *other public and private lending institutions* which carry on farm mortgage lending only as an allied business; e. g., savings banks, insurance institutions, and the state and provincial banks, whose initial capital is obtained from grants or loans by the respective states or provinces in which they operate.

From the viewpoint of capital requirements and ownership equity the *Agricultural Bank of Bavaria* (p. 60, footnote 1) is a particularly interesting case. Inasmuch as members must increase their shareholdings in a certain proportion to their borrowings, with the progressing business of the bank the share capital and thereby the ownership equity of the members increases automatically. Yet, the bank still retains the initial capital of around $1,225,000 furnished by the State and pays 3 percent interest on $1,000,000 and none on the remainder; on the share capital it pays 4 percent to borrower-members.

Limitation to Geographic Areas

It has been mentioned above that for politico-historic and also partly economic reasons the main groups of farm mortgage credit institutions concentrate to a certain extent in different regions of Germany. Within these larger areas the operating zones of most credit institutions are narrowed down to smaller units. The Landschaften make loans only in the particular Prussian province or the

[5] This applies only to "pure" mortgage banks. In the case of "mixed" business mortgage banks, the amount of bonds may not be more than 15 times as large.

state in which they were founded, including occasionally those adjacent parts of neighboring provinces or states which they can service more conveniently than another Landschaft. These matters are settled by agreement between the Landschaften.[6]

As a rule the state and provincial credit banks lend on mortgage security only within the limits of their state or province. Private mortgage banks, on the other hand, enjoy complete freedom from limitation to geographic areas, except that they cannot make loans in foreign countries.[7] The public savings banks although operating throughout Germany are restricted to their particular municipal or district area in making farm mortgage loans. Only a few are authorized to lend outside of these areas. Public insurance institutions lend in the district in which they operate, private insurance companies throughout Germany.

Competition Between Lending Institutions

The limitation to geographic areas clarifies to some extent the picture of competition; that is, Landschaften, state, and provincial banks and savings banks do not compete with institutions of their own group. Private mortgage banks compete to some extent among themselves, except those belonging to the Union of Mortgage Banks.[8]

Competition is minimized also by factors other than location. The somewhat more cumbersome and costly procedure of obtaining a mortgage loan from a Landschaft or a private mortgage bank has made these institutions the source of credit to the larger farms in regions where there are farms of various sizes. The small farmer turns to the savings banks which, owing to the constant personal contact between borrower and management, serve the peasant most conveniently. In some regions where peasant farms predominate, the fact that both groups of institutions—that is, state and provincial banks as well as savings banks—are public agencies, contributes to

[6] In the Prussian province of Hanover, for example, the two existing Landschaften restrict their business to distinct sections of the province while the three Landschaften or Landschaft-like associations existing in the State of Saxony are authorized to operate side by side throughout the whole territory of the state but nevertheless limit their lending zones so as not to interfere seriously with each other. At the same time one of them—i. e., the Agricultural Credit Association (Landwirtschaftlicher Kreditverein) of Saxony—extends the area of its operations beyond the borders of the State of Saxony into the territory of Thuringia.

[7] In 1931, for instance, of the mortgage loans (urban and rural) outstanding in South Germany where the private mortgage banks are particularly strong, 95 percent was made by South German private mortgage banks, while only 5 percent was made by North and Central German institutions. In North and Central Germany, on the other hand, 80 percent was made by institutions located in that area while as much as 20 percent was made by South German mortgage banks. Still, mergers and formulation of lending policies within the associations referred to above are leading increasingly to the formation of more or less exclusive lending areas (Bankprovinzen).

[8] Intergroup competition in one given area would be roughly as follows: Landschaften with private mortgage banks and savings banks; state and provincial banks with private mortgage banks and savings banks; private mortgage banks with Landschaften and savings banks, or state and provincial and savings banks, or saving banks only; savings banks with Landschaften and private mortgage banks, or state and provincial banks and private mortgage banks, or private mortgage banks only.

bringing about some restraint and coordination in the acquisition of a borrower clientele (Kundenwerbung). This is also true in those cases where in a particular province Landschaften and provincial banks both figure as farm mortgage lenders. Moreover, all credit institutions adhere to a code of fair competition (Zins- und Wettbewerbsabkommen) designed particularly to assure a uniform level of interest rates. Finally, regulation of the credit system by a government aiming at a planned application of credit in agriculture is likely to eliminate any competition which might appear harmful from the national viewpoint.

Methods and Principles of Raising or Allocating Funds for Making Farm Mortgage Loans

Farm Mortgage Bonds

THE three groups of lending institutions in the basic farm mortgage credit system which are authorized to raise loanable funds by mortgage bond issues (Pfandbriefinstitute) are the Landschaften, the state and provincial banks and the private mortgage banks. Only the bonds of the state and provincial banks are officially guaranteed by the government (state, province, or district) which they serve. One state bank making farm mortgage loans and two provincial banks granting land improvement credit are not authorized to issue bonds.

Landschaft bonds.—Since the bonds issued by a Landschaft are based on the security of the agricultural property mortgaged to the association, it is provided that the total face value of bonds outstanding may not exceed the total volume of the mortgages as shown in the official register. The volume so registered equals either the original amounts of the loans or the amounts remaining after reduction of principal has reached the specified percentage which allows cancelation of a like percentage in the register.

For a long period before the war, it was recognized that the supervision and control over the Landschaften exercised by the government constituted the strongest security of Landschaft bonds. This seems to be borne out by the fact that despite differences in the guaranty

offered by the various Landschaften on their bonds, there was as a rule only a slight margin in their prices.[9]

Bonds are secured not by individual mortgages—as was at one time the case in the early history of the Prussian Landschaften when the borrower entered into a contract with the investor and the Landschaft guaranteed to the latter the fulfillment of the contract—but by the collective assets of the association which consist mainly of member mortgages.

The Landschaften have established several kinds of general guaranties for their bonds. The six "old" associations, that is those established in the eighteenth century, had the collective membership guaranty (Generalgarantie). Today the "incorporated" members of the four "old" Landschaften in existence are still jointly liable for the bonds to the extent of the current value of their entire estates whether mortgaged or not.

Owing to changes in legal conceptions the bonds of the "new" Landschaften are guaranteed only by the mortgages of the borrower-members. In the place of a "Generalgarantie" the new Landschaften established special guaranty funds and reserves. However, if the Landschaft should not have reserves sufficient to cover its liabilities, the members are obligated to make supplementary payments within limits varying from 5 to 20 percent of the original loan received (Nachschusspflicht).

Prussian law requires that trust funds be invested only in gilt-edged bonds. Since government and Landschaft bonds rank first in this category, the provision gives the Landschaften in Prussia a distinct advantage over the private mortgage banks.

Bonds issued under prewar conditions bore interest as a rule at 3, 3.5, 4, and 4.5 percent with a few at 5 percent. The majority of bonds issued immediately before the war carried a rate of 3.5 percent but the volume of 4-percent bonds tended to increase at the same time. During the reconstruction period rates ranged from 5 to 10

[9] Market prices of Landschaft bonds have fluctuated below and above par. When they were first issued they sold at a premium and during the latter part of the eighteenth century their prices reached and exceeded par by as much as 10 percent. Prices declined during the Napoleonic Wars, although at that time Landschaft bonds were quoted above government bonds because unlike the Landschaften, the Government of Prussia could not pay its bond interest owing to the pressure of the wars. Following these wars, Landschaft bond quotations turned upward and remained high until 1850–60. A subsequent decline during the decade 1860–70 has been ascribed to the wars of that period and to the competition of bonds of the newly established private mortgage banks.

After 1873, when the Central Landschaft of Prussia was established, prices of Landschaft bonds rose until around 1880 when they nearly reached par. Quotations of Central Landschaft bonds, however, never exceeded those of provincial Landschaft bonds. At the close of the nineteenth century, apparently owing to the competition of increased returns from industrial and commercial investments, prices of mortgage bonds and of all securities bearing fixed rates of interest declined.

This situation continued throughout the first 10 years of the twentieth century. During the period of 1910–14 Landschaft bonds were slightly lower than government bonds. This has been attributed to a continuance of a somewhat restricted market for Landschaft bonds. Both types declined, however, owing to the unsettling effect of the Balkan War, to the heavy increase of issues of government, commercial, and industrial securities, and to the attraction of German capital abroad.

percent, with the majority of the bonds at 7 and 8 percent. Owing to legislation on interest-rate reduction the great bulk of bonds carried the rate of 6 percent from 1932 on, until rates were further reduced to 4.5 percent in 1935.

The technique of issue consists simply in giving the borrower not cash but the bonds which he has to sell. Thereby the Landschaft is relieved of the work connected with floating entire bond issues. The borrower is also given a function in retiring the bonds which generally have no fixed maturity.

In former times the chief advantage to the borrower of the bond policy of the Landschaften supposedly was that he might be able to sell his bonds more favorably outside of the province where the Landschaft operates. Agricultural East Germany was poor in investment-seeking capital compared with the industrial West and Central Germany. By selling his bonds through a bank in West Germany the Landschaft borrower could perhaps obtain a better price for them than he could obtain by sale in his locality. Despite the progressive modernization of the capital market, the Landschaften continued the policy of giving the borrower a function in marketing and retiring the bonds for other reasons.

For example, at the time when the loan is made, the Landschaft bonds of the corresponding series may be quoted above par. In this case the Landschaft makes the loan in cash equal to the face value of the bonds, sells the bonds itself, and credits the difference between the market price and the face value to the sinking fund account of the borrower. If, however, bonds are quoted below par, the Landschaft advances the difference in cash (Kursdifferenzzuschuss) out of reserves. Sometimes a higher interest rate is charged on the additional loan. The borrower by choosing a period and place of favorable quotation for selling the bonds can see to it that the additional cash loan is small. The Landschaft has to accept bonds at face value in discharge of the borrower's debt. The borrower who repurchases the bonds in the open market at a price below par obtains the advantage of the discount and can make substantial savings during periods of favorably low bond quotations. If the bonds are quoted above par at the time when the borrower wishes to repay, he does not have to buy them for the Landschaft will call them in. Thus, the borrower never pays more than par for them. Naturally, the privilege of the borrower to buy in bonds or to have them bought in plays a role only when he wants to make advance payments on the principal. Repayments according to the scheduled amortization plan are made in cash. From 1928 on, the Landschaften have reserved for themselves the right to sell the bonds on behalf of the Landschaft members, because during postwar years unorganized selling by individuals adversely affected the market for Landschaft bonds.

As explained above, several of the Landschaften in Prussia founded the Central Landschaft with the object of improving the marketability of their own bonds and of tapping new capital sources of the domestic and foreign market. It was also expected that uniform issues would tend to minimize price fluctuations. The procedure of issuing Central Landschaft bonds is as follows: The usual practice in making a loan is observed by the local Landschaft and on its completion, the papers and bonds are turned over to the Central Landschaft in exchange for the bearer-bonds of the latter. These are handed to the ultimate borrower for sale. Interest on the loan is collected by the local Landschaft, which is liable in event of default. Since Central Landschaft member institutions retain the right to issue their own bonds, the individual Landschaft borrower may choose to accept loans either in bonds of the Central or of the provincial Landschaft. If, for instance, the bonds of the local Landschaft are selling at a marked discount, he may request that the loan be made in Central Landschaft bonds. These bonds are secured specifically by the collective assets of the member Landschaften including the underlying mortgages. To widen circulation the Central Landschaft bonds at first were printed in several languages.

State and provincial bank bonds.—Mortgage bonds of the state and provincial credit institutions have no fixed maturity and are made payable to the bearer. They are issued against farm land and buildings as well as supplementary collateral of securities. Since they are guaranteed by the government of the region (state, province, or district) served by the issuing bank, they are accepted as legal investment for savings banks, insurance companies, and trustees. Before the war they carried a maximum rate of 4 percent, but rates occasionally were as low as 3 percent. After the inflation, rates were about the same as those of the Landschaft bonds.

Bonds are retired by lot if above par; if below par, by purchase in the market. As loans are made in cash unless bonds are requested by the borrower, the latter has no function in marketing or retiring the issues. These operations are attended to either by the banks themselves or by their central, the "Landesbankenzentrale A. G." which also introduces the bonds on the Berlin Stock Exchange and controls their prices (Kursstützung). On the strength of its own assets the central can issue bearer-bonds (Inhaberschuldverschreibungen) in the domestic market or abroad for the purpose of supplying member institutions with loanable funds, but the bonds are not collaterally secured by mortgages like those (Pfandbriefe) of the Central Landschaft.

Bonds of the private mortgage banks.—These bonds are secured by an equal volume of mortgages reckoned according to the amount of their original principal. Total volume of outstanding mortgage bonds of a

private mortgage bank may not exceed 20 times the paid-in capital and reserves. With the exception noted on page 64, surplus funds of a private mortgage bank may be invested in its own mortgage bonds, which is helpful in maintaining a steady market and stable quotations.

Private mortgage bank bonds have rarely been marketed by public subscription. The three "mixed" mortgage banks use their branch offices for selling the bonds to the public. The "pure" mortgage bank issues usually have been floated by commercial banks which is the most costly kind of issuance, since the commercial banks undertake the marketing of mortgage bonds only if they acquire the securities at a discount. In addition, the mortgage banks pay to the underwriting bankers premiums which have ranged in northern Germany from 0.5 to 1.25 percent, and in Bavaria, from 0.6 to 0.7 percent. Such charges are passed on to borrowers in the interest rate. The bonds of private mortgage banks are not guaranteed by the government and this has tended to make them less sought after for investment than the gilt-edged securities of the Landschaften or state and provincial banks. The coupon rates of private mortgage bank bonds before the war ranged from 3.5 to 5 percent with 4 percent bonds in the majority (approximately 70 percent). During the reconstruction period rates ranged from 5.5 to 10 percent with more than half of the issues carrying 8 percent until 1932, when approximately 75 percent carried the rate of 6 percent. Since 1935 the rate has been 4.5 percent. The private mortgage banks are forced to follow rather uniform policies in fixing interest rates of new bond issues as these are subject to government approval.

The bond issues of the private mortgage banks belonging to the Union (Gemeinschaftsgruppe Deutscher Hypothekenbanken) have always been offered in small amounts. Even in times of stress, repurchases of bonds for price stabilization by these banks were few and bond prices have been relatively high.

Farm Loan Funds of Lending Agencies Not Dealing Exclusively in Farm Mortgage Financing

State and provincial banks as well as private mortgage banks obtain funds for making mortgage loans against the security of farm or urban real estate by bond issues exclusively, but do not use as specific security for the bonds the funds accumulating through any general banking business which they may transact.

All inclusive statistics are not available for those state and provincial banks which make mortgage loans on both urban and farm real estate as their balance sheets do not always list the two types of mortgages separately. The figures for a number of individual banks show

that in 1934 farm mortgages accounted for from 13 to 70 percent of the total.[10] For this restricted number of banks, farm mortgage loans would account on the average for 44 percent of the total.

In 1937 the farm loans of all 26 private mortgage banks, including those owned by public institutions, accounted for 12.1 percent of total mortgage loans, while the corresponding percentages for individual banks ranged from zero to 92.1 percent. Lending on urban property is generally preferred by private mortgage banks because the duration of loans is shorter, resulting in faster turnover of funds and more frequent profits through commission charges. Moreover, inspection of the mortgaged real estate is easier and less costly.

Institutions which make farm mortgage loans to invest surplus funds or deposits must necessarily balance the volume of their various types of investment in the interest of liquidity. The German public savings banks, for instance, are today not permitted to invest more than 50 percent—before 1936, 40 percent—of their loanable funds in mortgages. In 1913 their mortgage investment amounted to 66.8 percent. Of their total mortgage loans outstanding, the following percentages have gone to agriculture:

1913	24. 5	1931	21. 2
1925	20. 0	1933	18. 1
1927	21. 9	1935	17. 5
1929	21. 0	1937	16. 3

Source: Heintze J. *Die Sparkassen als Kreditgeber der Landwirtschaft.* Report submitted to the First International Congress of Agricultural Credit, Naples, October 1938.

In addition, the savings banks have loaned indirectly to agriculture by investing some of their funds in the gilt-edged bonds of the Landschaften and the state and provincial banks.

Private insurance institutions are not subject to special rulings in this respect. Before the war two-thirds of their rather large funds were invested in real-estate mortgages, of which, however, only an insignificant portion was in farm loans; in 1927, 62 percent of their assets consisted of mortgages. The portion of farm mortgages was probably still small, for there are complaints in the literature regarding the fact that the private insurance companies do not by any means place as much credit at the disposal of agriculture as they should, considering the amount of business they have with rural policyholders. The public social insurance institutions apparently endangered their liquidity by going too far in making mortgage loans. It is said that during postwar times their liquidity could be maintained only through very considerable subsidies from the government.[11] The public life

[10] On the other hand, the statutes of the provincial bank of Hanover (Hannoversche Landeskreditanstalt) provide that the amount of urban mortgages may not be larger than 10 percent of the total mortgage loans.

[11] Mössner, K. E., *Das deutsche Bodenkreditsystem,* Berlin, 1934, p. 24.

insurance institutions show an increased participation in farm mortgage lending. The share of farm mortgages in total mortgages held increased from 36.4 percent in 1929 to 41.6 percent in 1934 and has remained around that figure since then.

Farm Mortgage Credit Supplied by Individuals

As far as is still possible under the restrictions imposed by the Hereditary Farm Law and the law regulating the sale of farm land (page 40), most of the credit supplied by individuals is given to enable a person to buy or obtain possession of a farm (Besitzkredit) either in the form of purchase money mortgages (Restkaufgelder) or inheritance mortgages (Erbteilungshypotheken). The latter represent mortgages in favor of the coheirs who, instead of accepting cash settlement, leave their inheritance share invested in the farm. The two types of mortgages referred to are usually written for long terms and are seldom recalled as long as interest payments are made punctually.

The smaller but in its absolute amounts nevertheless rather considerable part of mortgage credit from private individuals consists of cash loans to supply the farmer with operating capital or even with funds for unproductive purposes beyond the loan limit to which the institutional sources of credit are willing to go.

In the past lending policies of private individuals worked to the decided disadvantage of the borrower. Cash loans were secured mostly by mortgages junior to an already existing institutional first mortgage. Owing to the greater risk the junior mortgages, aside from being costly to the borrower, since they involved comparatively high interest rates, were largely of a speculative nature in that they tended to be above sound and safe limits of lending. Common knowledge of the fact that many mortgage credit agencies were cautious in their appraisals and that even their maximum loans frequently did not amount to half of the current sale price proved to be an incentive for private lenders to go to the limit of what they considered a comparatively safe maximum loan on the basis of some inadequately and too optimistically ascertained current sale price. Moreover, the continued upward movement of the latter, brought about during the fairly long period of German prewar prosperity by real estate speculation rather than enhancement of intrinsic capital values, completely obscured any conception private lenders might have had of the actual debt-carrying capacity of farms from the viewpoint of net revenue. Inasmuch as similar standards of evaluation were employed not only in connection with cash loans but also with "Besitzkredit" mortgages, it is not surprising that even before the war, particularly in the eastern regions of Germany, farmers became

overindebted and attempts were made to convert the existing junior mortgage obligations into institutional first mortgage credit at low interest rates.

The problem of increasing indebtedness through private "Besitzkredit" mortgages was still with German agriculture after the war, partly because of the revaluation of preinflation mortgages, partly owing to new mortgage contracts. "Besitzkredit" mortgages increased from 250 million mark in 1925 to 1.4 billion in 1932. Now the situation is changed greatly by enactment of the Hereditary Farm Law.

The granting of private mortgage credit is facilitated by the thorough system of title registration which has been uniform throughout Germany since 1900. Provision is made for obligatory registration of title, priority of each registered charge in the order of its registration, and freedom of inspection of the registers. The registers are drawn up for small areas and describe each estate. Claims not duly registered are not valid in the courts. The cost of registration and cancelation of mortgages is low.[12]

Lending Policies

Maximum and Minimum Loan Limitation

AMONG German agricultural economists opinion regarding admissible *maximum loan limits* differed greatly.[13] Too, the multitude of agencies competing in the field of farm mortage financing made it necessary to fix by law and special rulings a nominal maximum loan limit for first mortgage loans, that is, two-thirds of the appraised value. However, this did not lead to uniform loan levels because of differences in appraisal procedure and technique. Not infrequently

[12] A peculiar system of private mortgage credit existed before the war in the State of Mecklenburg where before the introduction of the Civil Code in 1900 a mortgage could be ceded to anyone without requiring a public act. The mortgage certificate thereby acquired the character of a negotiable bearer-bill. Since in this purely agricultural state the formation of capital was rather slow, large individual loans were not made but the required loan sum was reached by registering a number of small mortgages instead. Mecklenburg farms frequently were encumbered by from 100 to 150 mortgages and individual mortgage loans of $25 were not at all rare. Centers for this type of lending were the offices of solicitors and public notaries who invested money for their clients and took care of interest collection and loan liquidation. Even after the introduction of the Civil Code which did away with the free negotiability of private mortgage certificates, the notaries continued to act, so-to-speak, as mortgage brokers. For larger areas where there is less intimate personal knowledge of the affairs of the debtor and the trustworthiness of the mortgage certificates cannot be checked upon, a similar system would be unthinkable.

[13] For instance, in prewar times von der Goltz considered two-thirds as the maximum; Conrad considered three-fourths of the land value exclusive of buildings as safe; Buchenberg 70 percent in the case of medium-sized peasant farms, but only 30 percent in the case of small peasant farms; Aereboe established the following schedule for the comparative safety of maximum loan limits:

Interest rate on mortgage loan	*10 Percent*	*8 Percent*	*6 Percent*	*4 Percent*
Maximum loan limit	19.0	35.2	51.4	67.6

the farm values determined by a savings bank, for instance, were above those determined by the Landschaft in the same region. Throughout Landschaft mortgage association history security of the mortgages has depended far more on relatively low appraisals than on the percentage of the appraised values against which loans were granted. The maximum amount loanable usually has ranged from one-half to two-thirds of the value as appraised by the Landschaft. On the basis of a Prussian law of 1906, which raised the maximum loan limit of the Landschaften, loans were made in rare instances up to five-sixths of the very conservatively appraised value. In general practice, therefore, before the war Landschaft loans made on this basis were equivalent to from 30 to 40 percent of the actual market value. The cautiousness of the Landschaften in this respect was severely criticized, for it not only restricted the amount of cheap Landschaft credit available to the borrower but also induced and partly forced him to mobilize that portion of the safe lending margin of his farm which the Landschaft left unused by taking more costly mortgages junior to this limited first mortgage. Many borrowers turned away completely from Landschaft credit and applied to the private mortgage banks or private unorganized sources instead. It was only a few years before the war that by changing their appraisal policies the Landschaften were able to stem the borrowers' "flight" (Flucht aus der Landschaft) and thus provided for a conversion of the more expensive outside junior encumbrances into cheaper first-mortgage credit with the Landschaft.

The provincial and state banks lent before the war up to three-fifths or two-thirds of the value as appraised by them. In the case of private mortgage banks the range was from one-half to two-thirds of the sale value, as according to the German Mortgage Bank Law the value for lending purposes was not to exceed the sale price. However, the two-thirds limit could be applied only with special permission from the government of the state in which the bank operated. Otherwise, the maximum limit prescribed by the Mortgage Bank Law was three-fifths. Savings banks and insurance companies also had the two-thirds upper limit; with the latter, however, three-fifths was the figure most commonly adopted in practice.

In view of the comparative ease with which German agriculture was able to make interest payments during at least two decades before the war, it is safe to assume that most of the institutions making farm mortgage loans went to the limit of the permissible two-thirds of whatever value resulted from the various appraisal procedures.[14] In postwar times the average loan limit in actual practice ran from 30 to 40 percent of the appraised values. In this connection, the

[14] In fact, Mössner, K. E., *Das deutsche Bodenkreditsystem*, Berlin, 1934, states that the average maximum loan limit for all farm mortgage credit institutions was 66 percent.

bond-issuing institutions adopted in a way Aereboe's idea of graduating the maximum loan limit according to the coupon rate of interest of the bonds, as follows:

Interest rate of bonds	*8 Percent*	*7 Percent*	*6 Percent*
Maximum loan limit	33.5	36.0	40.0

Frequently, in addition to the relative maximum loan limits which are expressed as a percentage of the appraised value of the farm, mortgage credit institutions fix absolute maximum loan limits in the currency of their country.[15] As a rule the important German lending agencies do not enforce such absolute upper limits. Among the exceptions to this rule may be mentioned the private mortgage bank of Württemberg with a limit of around $1,000 and the Weimar State Bank with $2,400. Private insurance institutions are held by their supervisory government bureau not to exceed the sum of $49,000 per individual farm mortgage loan. Also, several of the public insurance institutions limit the amount that can be granted to one single borrower. As was mentioned above (page 15, footnote 19), the borrower himself may fix an absolute maximum limit for mortgage loans on his property.

The cost of making loans usually is the principal criterion for setting *minimum loan limits* but other considerations may play a role in this respect.[16] In Germany, many mortgage institutions have been in a position to make cost the guiding element in fixing minimum loan limits owing to the fact that there is such a great variety of institutions, each serving a different stratum of the agricultural industry. The Landschaften, for instance, although they did not fix any absolute minimum loan limits, were able to ward off the small and therefore costly borrower by the requirements regarding membership, initial payments in connection with obtaining the loan, and the type of holdings on which mortgage loans could be made. The provincial and state banks, on the other hand, made it a policy to assist particularly the small farmer by establishing minimum loan limits which would be in reach of even the smallest borrowers.[17] As far as can be

[15] In the United States, for example, Federal land bank loans are made up to 50 percent of the value of the land plus 20 percent of the value of the permanent improvements, the total not to exceed $50,000. Loans above $25,000 must have the special approval of the Land Bank Commissioner and preference is being given to loans not exceeding $10,000. Land Bank Commissioner loans, for which the relative maximum loan limit is 75 percent of the value of the entire property, shall not exceed the absolute limit of $7,500.

[16] In the United States a Federal land bank loan shall not be less than $100. If cost alone were the determining factor, the minimum loan limit should be higher. Evidently the desire to help the small farmer has prompted this limit and, therefore, we also find in other countries minimum loan limits lower than warranted from the business viewpoint of mortgage banking.

[17] Cahill, J. R., *Report to the British Board of Agriculture and Fisheries of an Inquiry into Agricultural Credit and Cooperation in Germany*, Senate Document 17, Sixty-third Congress, First Session, 1913, quotes

160556°—40——6

ascertained today the state and provincial banks have no minimum loan requirements at all.

The private mortgage banks in order to compete successfully with the nonprofit public institutions must keep their lending terms as flexible as possible and therefore do not enforce fixed minimum loan limits, but they do go as low as compatible with the expenses involved. For the "pure" mortgage bank type the limit at which a mortgage loan still pays appears to be around $2,000.[18] On the other hand, the most important South German private mortgage bank, i. e., the Bayerische (Bavarian) Hypotheken- und Wechselbank, which is a "mixed" type mortgage bank and maintains for general banking purposes a network of agencies reaching into the smallest villages, is allowing loans as low as $250.

Making farm mortgage loans is less costly for savings banks and insurance companies for the reason that they do not have to carry the cost of the bond-issuing and marketing apparatus. The savings banks, moreover, being the mortgage credit source for the small farmer in particular, can dispense with other expenses (appraisal, etc.) owing to the knowledge their managers have of local conditions. Hence, there is no need for minimum loan limits. In 1937 the average farm mortgage loan made by the savings banks was $619.

Appraisal

Appraisal theories have caused a battle to rage between the proponents of the capitalization of net-return and the sale-price methods.[19] The former yields a value of the farm commonly referred toa s net-return value (Ertragswert) which is obtained as follows: the average expenses of the farm are deducted from the estimated gross return and the difference, representing the net return, is capitalized at the current rate of interest. The sale-price method merely results in a value determined on the basis of experience with sale prices, land rents, and other conditions of the district (Verkehrswert). In actual practice the leading lending agencies combine both methods by advising their appraisers to compute the farm value from sale prices in the first place but at the same time permitting them to take refuge in capitalized net-return values in case sufficient information on sale prices should be lacking. If both values are available the placing of emphasis in the final appraisal on the result of either method is a decision left to the appraiser. Moreover, in many instances lending agencies.

the following minimum loan limits for state banks in 1913: Saxe-Meiningen, $12; Bautzen (Saxony) and Old enburg, $34; Wiesbaden, $37; Gotha and Schwartzburg-Sondershausen, $49; Gotha, $73; Hanover, $147.

[18] Conversions in the paragraph are all made at the rate of 4.20 mark to the dollar.

[19] It is suggested that in conjunction with this section the reader consult an article by Karl Brandt entitled *Land Valuation in Germany*, Journal of Farm Economics, February 1937, which contains a thorough discussion of both the theory and certain practical aspects of appraisal.

entrust the actual appraisal work to private appraisers who form "a guild of elderly and experienced men whose members do not discuss in public any details of the technique they applied in their magic craft."[20] One appraisal element, though, is given some consideration by everybody, namely, the net return of a farm as established by the fiscal authorities for the assessment of a tax. The value arrived at in connection with one tax is not necessarily equal to that assessed for another tax. Nevertheless, many credit institutions used a tax net return when making small loans for which individual and local appraisal would be too costly. The tax net return chosen was multiplied by factors determined in the light of land price movements and the general agricultural situation in the region where the farm was located. Before the war the Landschaften made many mortgage loans without individual and local appraisal on the basis of the land-tax net return (Grundsteuerreinertrag) as a rule within the range of multipliers of 15, 20, and 25. When individual appraisals were made, land-tax appraisal data were given due consideration.[21]

However, the bases for tax-authority appraisals were land surveys and net-return ratios worked out ages ago through a considerable variety of methods.[22] It is not surprising that during the unprecedented prosperity in Germany before the World War when land values rose steadily, the net-return values for taxation purposes, even if brought up to date, were lagging behind the sale-price values and that appraisals based on them were considered unjust to the borrower. It is also plausible that—and this did not happen in Germany alone—the theorists began to distinguish between "ordinary" appraisal for the purpose of arriving at the real current value of farming property and "cadastral" appraisal which is the determination of a taxable return from it. In other words, the value for taxation purposes began to be considered as a special form of value.

One of the severest critics of exclusive net-return valuation was Aereboe. He showed that calculation of the net revenue of landed property based on bookkeeping, even as a simple aid for the valuation of future revenues, could be used only conditionally. He criticized

---

[20] Brandt, Karl, *Land Valuation in Germany*, Journal of Farm Economics, February 1937.

[21] Adaptability to uniform application to all of Prussia was the great advantage of using the land-tax assessment. For Landschaft mortgage lending, it was found necessary to use a higher multiplier the smaller the farms, because the land-tax assessment did not take into consideration the proportionately higher investment of buildings on smaller farms and the increased market value of such farms caused by the greater demand for them. Consequently the Landschaften tended to use a multiplier as high as 50 and 60 on small and relatively more valuable farms. This method was devised by taking into consideration the index of building valuations as determined for the building tax.

[22] Land survey for fiscal purposes depicts the situation of about 1865 in Prussia, of 1835 in Bavaria. The Mecklenburg survey is in part 150 years old. For sections of Hanover 40 to 50 percent of the agricultural area now in use does not even appear in the survey as farm land.

the application then in use as impractical, unscientific, and indefensible and insisted on a radical revision of appraisal methods.[23]

In accordance with his thesis, Aereboe in 1911 developed a modification of the land-tax net-return appraisal method used at the time by the Landschaften in order to provide a fairly accurate but inexpensive appraisal. As the basis for his revision, numerous sale prices and results of special appraisals were tabulated to indicate trends in value for the various soil classes. The land was then assessed according to qualitative soil tests (Bonitierung), location, and the value of the various types of land as determined by their situation within specific territorial zones patterned to conform with the economic development of the country and the real estate market. Premiums and discounts for factors increasing or decreasing the value of the farms as security made the new measure more exact. The method was widely used because it limited the high cost of local appraisal, could be adjusted readily to the needs of the farmer apparently without undue risk for the Landschaft and was especially appropriate for small farms.

But the stress on sale prices had two drawbacks: credit institutions were following possibly unsatisfactory appraisal methods for a long period without improving them because the steady increase in land values made it difficult to determine beyond doubt to what extent the methods might be inadequate. As explained previously, it also induced agriculture to borrow without close cost accounting. Even though some credit institutions such as the Landschaften were conservative in their appraisals, the condemnation of the capitalization method by authorities in the field of appraisal must have influenced many an intelligent farmer to borrow on junior mortgage security more than perhaps could be eked out of the farm in even a minor agricultural crisis. It is significant that owing to the difficult economic conditions after the war, the farmers' capacity to pay interest gained in importance as a decisive criterion of farm value and that although no change in the essentials of appraisal methods took place for some time, the credit institutions did not go the limit in lending on the appraised values and rather lowered the maximum loan limit percentages.

With the object of establishing farm values suitable for the assessment of any kind of tax and uniformly binding for all tax authorities

[23] Some of the specific objections Aereboe raised were the following: (a) no exact calculation of net returns can be made, chiefly because it is impossible to distinguish between running expenses and expenses for permanent improvement; (b) practically identical farms in similar locations yield varied returns; (c) managerial qualities are more important than the farm itself; (d) forecasts of production cannot be made with accuracy sufficient for use in calculation of future net returns, which alone can determine the value of a farm; (e) no criterion is available for determining the period or the rate of interest which should be chosen for capitalization; (f) the net-return method rests on the hypothesis that farms having equal net returns have also equal capital values. But purchasing power of the same net expressed in money varies with the location of the farms as far as goods and services farmers must buy as well as payment of taxes and interest are concerned; nor does expressing net returns in kind solve the problem, for these would have to be valued in money so that the method is invalid in this instance also.

(Reich, state, municipal), the Appraisal Law of 1925 (Reichsbewertungsgesetz), amended in 1931, laid down new principles and the German Ministry of Finance established new methods of appraisal.[24] The "best German farm" which happens to be located in central Germany was selected as a standard enterprise. All of its ramifications were studied and results from soil tests, accounts, and other data were tabulated with regard to capital investment and net return. Thus, the farm is not only appraised as an object of value from the viewpoint of the sale-price method but also as a going concern. Then in other communities farms of comparable efficiency were appraised on like bases and after a standard farm was designated in each locality, all other farms were to be appraised in relation to this base.

Credit institutions were not obliged to accept the standard tax value of a farm as binding in making new mortgage loans except in connection with refinancing overindebted farms following enactment of the Debt Adjustment Law of June 1, 1933 (Schuldregelungsgesetz).[25] The Industrial Bank was also made to follow the same principles of appraisal in refinancing farms in East Germany (Osthilfe). In the course of time the Rothkegel method has been and is being perfected. Of greatest significance in this respect was the enactment of the Soil Appraisal Law (Bodenschätzungsgesetz) of October 16, 1934, which provided the machinery for classifying every tract of agricultural land in Germany according to its natural productivity.[26] The land classification scheme is still under way and will not be completed for several years. Its method is based on schematic appraisal. Whether a tract of land belongs to a particularly well- or badly-managed farm is ignored. The emphasis of soil appraisal is on natural productivity and the soil appraisers may not even know to which farm the tracts of land under observation belong. Appraising agricultural land from the viewpoint of its relation to a farm is the task of the farm appraiser and constitutes the second step to be taken which includes consideration of all other farm appraisal elements such as the ratios

---

[24] These were worked out mainly by Walter Rothkegel (*Schätzungslehre für Grundbesitzungen*, Berlin, 1930) in collaboration with Heinrich Herzog. Accounts of the method are given by Professor Charles L. Stewart of the University of Illinois in *Some Aspects of Land Appraisal Abroad*, Journal of the American Institute of Real Estate Appraisers, April 1934, pp. 189–193 and *Increasing the Accuracy of Farm Appraisals in European Countries*, University of Illinois, Agricultural Experiment Station Bulletin AE–993, November 1938.

[25] The purpose of this legislation is to lower the excess indebtedness of farms to such an extent that the gross income of the farmer would be sufficient to provide a living for the farm family and pay all interest, amortization, and taxes. In this connection, an estimate of the farm's capacity to pay interest (Zinsleistungsfähigkeit) is being made which is based on the 1931 tax value. The procedure of calculating the annual amount representing capacity to pay interest cannot be discussed here in detail. Any farm having debts in excess of 12 times the capacity to pay interest which has been calculated for it is deemed overindebted and its debts are scaled down to that level which corresponds to the maximum limit for secure investment of trust funds for minors (Mündelsicherheitsgrenze). The maximum limit for general safe lending (Beleihungsgrenze) is 18 times the capacity to pay interest.

[26] A special report on soil and farm appraisal according to the Rothkegel method is being prepared in the Farm Credit Administration. See also Charles L. Stewart's *Increasing the Accuracy of Farm Appraisals in European Countries*, University of Illinois, Agricultural Experiment Station Bulletin AE–993, November 1938.

existing between plowland and grassland, crops, livestock, buildings as well as the organizational aspects, the efficiency of the farm layout (Innere Verkehrslage) and the economic-geographic location of the farm (Äussere Verkehrslage). In the process of appraising the farm as a going concern, the basic rating which is given under the general schematic soil appraisal procedure to the soil of a farm for its inherent natural productivity is adjusted in the light of economic and farm-management factors affecting the net return from the land.

The striking feature of the Rothkegel method is that the value of the farm as a going concern is not expressed in a sum of money but as an abstract rating, that is as a percentage figure derived from comparison with the net return—100—obtainable under certain suppositions from the best piece of agricultural land and the best farm in Germany. Such comparisons which any appraiser is making intentionally or subconsciously are now available ready-made for him as the results of a thorough appraisal analysis, farm by farm, carried out by an apparatus which no credit institution or individual real-estate firm can equal. Once the basic rating of a farm has been established, any changes taking place which would entitle it to a higher or a lower rating can easily be taken into account by simply adding or subtracting percentage points to or from the basic rating. Given the officially-determined money value of the best farm or the best piece of agricultural land in Germany, it will be equally easy for an appraiser, with the help of the ratings, to determine the money value of any other farm. Annual reappraisal of the standard farm or farms in terms of money will make it possible to take into account changes in the agricultural situation as well as in the purchasing power of the currency. The Rothkegel method has given the appraised value for taxation purposes a new and substantial meaning. In any problem of agricultural policy the German Government is relying on the results of this method and there are indications that the credit agencies consider tax appraisal values as tantamount to values for lending purposes and are accepting them more and more as binding.

Attitude With Respect to Junior Mortgages

Partly owing to legislation, partly on general principles, mortgage institutions lend only on first mortgage security. Exceptions to the rule are the savings banks which grant second mortgage loans provided that together with the first encumbrance they do not exceed the maximum limit for safe lending set in the statutes of the savings banks; in reality, therefore, these junior mortgages are based on what is commonly considered first mortgage security. The Hanover Provincial Bank (Hannoversche Landeskreditanstalt) may also lend against second mortgage security under a similar proviso. The

Landschaft of Westphalia admitted second mortgage security for coheir settlement loans and the East Prussian Landschaft for loans made to convert excessive short-term debts into long-term amortization loans. The state and provincial banks are not bound by statutes or law to lend only on first mortgage security as are the Landschaften and the private mortgage banks, but as a matter of sound business practice in lending to agriculture they are reluctant to accept second liens. Thus in order to obtain mortgage credit beyond the maximum loan limits established by the important lending agencies, farmers have to rely on other sources, chiefly private individuals.

The only farm credit institutions that specialize in making second mortgage loans are the Landschaft banks. In addition to a first mortgage held by the Landschaft proper, they grant second mortgages not to exceed 15 to 20 percent of the value as appraised by the Landschaft. However, of the 15 regional Landschaften and Landschaft-like mortgage associations in existence only 4 have affiliated Landschaft banks, so that many Landschaft borrowers are not able to obtain institutional second mortgage credit. Similarly, the Life Insurance Institute of the East Prussian Landschaft grants second mortgage credit, if the Landschaft proper holds the first trust, for the explicit purpose of liquidating short-term debts.

Attempts to supply agriculture with institutional second mortgage credit in an organized fashion and on a somewhat larger scale were made first during the reconstruction period. Junior mortgage security was at that time required to a much greater extent for previously unsecured short-term credit furnished by private capital. This type of mortgage credit and also the small amount of personal credit still available were both subject to high interest rates. For conversion into institutional second mortgage credit at lower rates (Umschuldungskredite), in 1928 the $25,000,000 obtained in the United States by the Landesbankenzentrale and probably part of the other American credits were used. In the same year the Reich and the Prussian Governments placed 18 million mark at the disposal of the Bank of East Prussia Land (Landesbank der Provinz Ostpreussen, a provincial bank not to be confused with the Landschaft bank) for the purpose of making second mortgage loans in this emergency area. Also the new Osthilfe credits of the Industrial Bank (1931 to 1937) were secured by second mortgages.

It appears, therefore, that most of the institutional second mortgage credit was extended as a matter of debt relief rather than to supply farmers regularly and under normal conditions with credit additional to that based on first mortgages.

Interest Rates and Additional Charges

Since July 1935 the maximum interest rate on all first mortgage farm loans has been fixed at 4.5 percent for an indefinite period.[27] At present this is also the minimum rate agreed upon by credit institutions in their code of fair competition (Zins- und Wettbewerbsabkommen). It seems, however, that in the interest of small farmers many of the savings banks are allowed to keep the interest rate at 4 percent. Comparison with the figures contained in the table on page 16 would indicate that interest rates of institutional credit are now about the same as in prewar times. Landschaften, state and provincial banks as well as private mortgage banks require, in addition to the interest rate, an extra annual percentage of the outstanding principal as a contribution to administrative expenses which amounts to 0.75 percent for loans under 15,000 mark and 0.50 percent for loans above this sum.[28] In this respect the public and nonprofit agencies (Landschaften, etc.) are somewhat better off than the private mortgage banks which have to make profits for dividends out of the 5 to 5.25 percent charged the farmer. As a rule, savings banks do not ask for contributions to the administrative expenses. If in exceptional cases such contributions are demanded, they are not on an annual basis but from 1 to 1.5 percent of the original principle is charged when the loan is made.

In regard to other additional charges to the borrower various policies are followed. For appraisals, when made by officially licensed appraisers (Reichsnährstand, see page 41, footnote 46) the fee ranges from 0.25 to 0.50 percent of the appraised value. Some institutions have their own appraisers and charge only traveling expense and per diem. Most savings bank loans are made without appraisal since the local managers usually know the borrowers' assets. Loan renewal and reappraisal charges are not made by any of the agencies. Although not exactly a matter of loan policy on the part of the lending institution, it should be mentioned here that those who borrow from bond-issuing institutions—i. e. Landschaften, state and provincial banks as well as private mortgage banks—must pay 0.50 percent as a tax for the transfer of securities on the amount of mortgage bonds involved. Some borrowers who use the services of a mortgage broker pay an additional 1 to 3 percent, but it is not the custom of the lending institutions to claim the fee for themselves if no broker intervenes. The savings banks do not admit mortgage brokers at

---

[27] The legally admissible maximum interest rate on junior mortgages contracted before July 2, 1936, is 6 percent, but it appears that this is also the most frequent rate on junior mortgages contracted recently. For other exceptions, see page 39.

[28] Before interest rates were fixed by law, private mortgage banks were not permitted to make charges for administrative expenses. These were supposed to be covered by the interest margin together with allocation to reserves, taxes, and stockholders' dividends.

all. With the exception of the savings banks, lending agencies charge a commission of from 1 to 1.5 percent when the loan is made and an additional 0.50 percent commission if the lending institution has to sell mortgage bonds on behalf of the borrower. On the whole, therefore, the loan charges of the major groups of mortgage institutions, excluding interest and contribution to administrative expenses, cost the borrower from 1.75 to 2.5 percent of the principal. In addition there would be for all mortgages alike registration and public notary fees as well as various taxes adding up to from 3.8 to 4.6 percent of the principal. Some of these are assessed as flat fees, others as a percentage of the principal.

Depending upon the type and size of loan and on whether appraisal took place or a broker was used, contracting a farm mortgage loan of moderate size may cost the borrower from about 4 percent to possibly more than 10 percent of the original principle.[29]

As there is always particular interest in the lending policies of the Landschaften it may be added that before the war the charges, some of which were annual, included appraisal fees, sums for defraying administrative expenses (Quittungsgroschen), entrance fees to pay initial costs of making the loans, costs of deeds (Promillegelder), a stamp tax payable on the bonds, and sums for allocation to reserves. The borrower usually paid 2 percent of the amount of an average loan to cover his share of the initial cost of making the loan. In addition he paid up to 3 percent of the amount of the loan into the reserve fund. The payment to cover additional charges usually was taken out of the first six annual payments, thereby prolonging the amortization period. Some years before the war the accumulated reserves of several Landschaften enabled them to dispense with the levying of special administrative charges altogether, but after the war they no longer could afford to grant loans free of charges for defraying these expenses.

As part of the program of the Landschaften to facilitate the granting of loans at low cost, appraisal charges were reduced whenever possible by lessening costs of making valuations as well as by the Landschaft assuming a portion of the costs. But since the thorough nature of the valuations involved several days' work by two or three appraisers who made borings, classifications of soil, water, etc., the cost of appraisals would amount to as much as 20 or 30 percent on a small loan of 3,000 or 4,000 mark. Most of the Landschaften also charged commission fees to be paid when the loan was made. These amounted at the maximum to from 400 to 500 mark. It is obvious that with such charges Landschaft credit to the small borrower proved rather costly.

[29] Detailed information on these charges is on file in the Farm Credit Administration and will be made available on request.

Requirements for Obtaining Mortgage Loans

In making application for a mortgage loan the borrower must present a series of documents proving his title, payment of taxes on land and buildings, tax value of the property, annual continuous revenues amounting to more than the annual payments of and charges on the loan, etc., and also that the property carries at least fire insurance. Some credit institutions require insurance of the inventory, including livestock. In order to prevent unproductive use of the funds and to maintain the debt-paying ability of farmers, credit institutions subject the borrower to various other requirements. Frequently he must make a solemn affirmation to the effect that he will not use the loan for purposes other than those stated. Recently credit institutions have begun to pay directly the claims of third parties (suppliers of goods and services, coheirs, persons from whom farm is bought) instead of making a loan to the farmer for that purpose. Some of the typical farm mortgage credit agencies (Landschaften, mortgage banks) appear to have farm efficiency advisors who currently control the operation of the mortgaged farm. Submission to regular inspection is part of the loan conditions. Also, if inspectors are not sent out, the borrower's business can be controlled by current reporting of farm management data. In this connection it should be mentioned that all farms having received mortgage loans under the debt-adjustment schemes are subject to control by the credit institutions concerned or in the case of "Osthilfe" farms by an especially created organization. The government controls all farms receiving subsidies. It is understood that in parts of the country a farm management control service has been established under the auspices of the Reichsnährstand and that expansion of this service, to which borrowers as well as nonborrowers are subject, is planned. Agricultural credit cooperatives require borrowers to become shareholders. The share amount varies from 10 to 100 mark.

Repayment Plans

The mortgage loans of the specialized institutions (Landschaften, state and provincial banks, private mortgage banks) are as a rule not callable and those of the others (savings banks, insurance companies) preferably callable. In return for this disadvantage the latter group is lending at a somewhat lower total cost to the borrower.

Policies regarding the duration of loans vary considerably with the type of mortgage loan and in the case of amortization loans with the size of the amortization and interest rates. Straight-term mortgage loans are infrequent nowadays with agencies specializing in farm

mortgage credit.[30] The savings banks make such loans for periods up to 15 years; but straight-term loans constitute only 37 percent of the total as against 63 percent representing amortization loans which run from 25 to 35 years, 38 years being the admissible maximum duration.

Private life insurance companies appear to have three different plans of which the first mentioned is most frequently employed: (a) payment in full after from 3 to 5 years during which the loan cannot be called; (b) payment in full at any time in an indefinite period of duration after from three to six months' notice; (c) amortization with 10 years maturity.

The amortization loans of the specialized mortgage institutions will have a maturity of either 50 years with an amortization quota of 0.5 percent or 33 years with amortization at 1 percent unless the 4.5 percent interest rate is changed. These are the two most frequent types of amortization loans. In prewar times they were 40, 45, or 65 years and even longer. In fact, as has been explained above (page 17) maturity lengths as stipulated in the mortgage contracts before the war were but theoretical in character.

Landschaften.—Although it is a fundamental rule of the Landschaft mortgage system that a mortgage loan is not callable as long as a landowner fulfills the terms of his agreement, calling it immediately or within six months is possible in case of certain specified offenses—e. g., if the debtor fails to comply with orders of the Landschaft, to notify the Landschaft within two weeks of the sale or renting of the farm, to conform to the scheduled amortization plan for payment of the first mortgage, or if he jeopardizes the security of the bonds through sale of livestock or inventory.

The buyer of a farm on which the Landschaft has a mortgage must become a member of the association. Refusal on his part to join or on the part of the Landschaft to admit him to membership also makes the loan callable within six months.

Amortization was introduced by the Landschaften around 1839 and numerous variations of the payment plan were used. Rates ranged from 0.25 to 1 percent, but it appears that the most common was that of 0.5 percent per annum. Practice varied also in regard to use of amortization payments. In some instances the entire percentage was used to retire the principal of the debt. In others a portion was allocated for defraying administrative expenses and sometimes during a limited period for building up reserves.

In general practice before the war, amortization was optional for a mortgage loan equal to only one-half the appraised value of the property or for a maximum loan amounting to 20 times the net return

---

[30] Statistics of the loans of private mortgage banks show that at times more than 50 percent of their loans were unamortized. This is due to loans on urban real estate. Before as well as after the war their farm mortgage loans were almost exclusively amortized.

as estimated for the land tax. On a loan of more than one-half and up to two-thirds of the valuation of the property, it was required that the portion in excess of one-half the valuation be amortized by an annual charge of 0.5 percent of the original principal of the loan. In the case of loans amounting to five-sixths of the value, it was required that the portion in excess of two-thirds of the valuation be amortized by a special annual charge of 2 percent. Payments, including interest, were made semiannually.

The scheduled amortization plan of Landschaft loans provides for cash repayment into a sinking fund (Tilgungsfonds) which is used once a year to retire by purchase in the market the corresponding volume of bonds of the exact type and series advanced to the debtor. If the association buys in the bonds at less than par the advantage goes to the debtor since his sinking fund account (Tilgungsguthaben) is credited with the face value of the bonds. If, on the other hand, the bonds required are selling above par, numbers of the series are drawn and called for in the press. As soon as the borrower's repayment credits and his portion of any allocation of surplus funds which the Landschaft might credit to the sinking fund accounts of borrowers equal the amount of the loan, the mortgage may be canceled.

Advance payments in part or in full before maturity may be made in cash or preferably in the form of Landschaft bonds (Naturatilgung) which the debtor has to purchase in the open market and which must be of the same series he was loaned.[31] This arrangement supposedly tends to stabilize bond prices and the Landschaften encouraged it as their funds for intervention in the market to support bond quotations were not as ample as those of the private mortgage banks for example. The Landschaften permitted it also for their rye bonds.[32]

An exception to the practice of encouraging advance principal payments was made by the Landschaften after 1925 with respect to their mortgage loans serving as security for gold mortgage bonds

[31] The function of the borrower in this connection and the advantages of the procedure have been discussed on p. 68.

[32] The theory that repayment of mortgage loans in bonds tends to stabilize bond prices is very much debated. The "Naturatilgung" probably can have such effects when the bond market is normal and bond price fluctuations are due to particular market positions or minor economic influences during a short period. K. E. Mössner (pages 220–224) proves that repayment in bonds does not affect bond prices when the entire bond market breaks owing to a severe financial or economic crisis although it may result in retirement of a larger quantity of bonds than would otherwise occur.

Acceptance of mortgage payments in bonds instead of cash, except for interest and regular amortization, was made compulsory by the revaluation law of 1925 for all credit institutions in connection with the retirement of bonds secured by revalued mortgages (Liquidationspfandbriefe). This is still in effect. Chancellor Brüning's Fourth Emergency Decree of December 8, 1931, extended the Landschaft principle to all mortgage credit institutions and all types of bonds with the object of reducing the amount of mortgage bonds in circulation. Originally intended to be effective only until December 31, 1933, a law passed by the National Socialist Government (December 20, 1933) prolonged the Brüning decree until August 31, 1934. During the entire period bonds in the amount of around 800 million mark were retired which undoubtedly paved the way for somewhat healthier conditions in the bond market of the future. Nevertheless, after announcement of the decree and of its prolongation, bond prices declined each time 10 to 13 percent, because bondholders sold for fear of further legislative action. Obviously, in these instances the principle of "Naturatilgung" failed to have the expected effects of stabilizing prices.

(Goldpfandbriefe). On these loans borrowers were not permitted to pay the principal in advance for in some cases seven and in others ten years after the making of the loan. The restriction was imposed because a large portion of the gold mortgages securing these bonds were tied to the bond issues floated by the Central Agricultural Bank in the United States, and the original retirement plans did not provide for unscheduled advance repayment. Nevertheless, the larger part of the American bond issue was retired in advance because depreciation of these bonds in the United States owing to standstill agreements enabled the Central Agricultural Bank to repurchase large amounts.

Advance payments in full or in part are permitted at the discretion of the individual Landschaft with or without a certain period of notice. Debtors wishing to settle in cash have to declare their intention in writing at least two months in advance so that the Landschaft can buy in bonds of the corresponding type and amount in time. Before the war, debtors wishing to reduce the principal by making advance payments were urged to allow the Landschaft instead to credit the amounts involved to their share in the sinking fund for an extended period. This policy was advocated because as long as the principal remained at its original figure, the amount payable annually for amortization would not change and liquidation earlier than scheduled would result.[33] Since the war, however, principal reduction with progressively smaller annual amortization payments usually has been practised because of the extremely limited means of agrarian debtors.

A very interesting aspect of the Landschaft mortgage repayment plan is that repaid principal can be made the basis for new loans. It has been mentioned above that principal installments are not necessarily utilized to reduce the original debt but can be accumulated over a period of years in the sinking fund on which the debtor may draw any time he desires to have his principal reduced. After 10 percent of the mortgage loan has been repaid, the borrower may request that the principal shown in the official mortgage register be canceled in an amount equal to any portion of the principal that has been repaid. If he does not exercise this right, he may then apply at the Landschaft bank for personal credit in the amount of the portion accumulated in the sinking fund. After repayment of the personal loan this process may be repeated and continued indefinitely without the borrower ever discharging his total mortgage debt with the Landschaft. In such a case the mortgage serves as potential cover for personal credit,

[33] Also, advantageous investment of the sinking fund may contribute to discharging a debt before the scheduled time as the interest derived from investment accrues proportionately to the sinking-fund accounts of the individual borrowers. Unless a Landschaft uses its own Landschaft bank for this purpose such investment is possible as the Landschaften are authorized to deposit liquid funds with public banking institutions and also with commercial banks, provided special permission is obtained from the government.

but no change may be made in the mortgage record of the principal until it is repaid in full. Also, if at least 20 percent of the mortgage loan has been repaid without request for cancelation in the mortgage register, the borrower may apply for a renewal of the long-term mortgage loan up to the amount credited to him in the sinking fund. In this case the renewed loan is made in bonds.

State and provincial banks.—Amortization loans are not callable. A liberal policy is observed regarding renewals and extensions of unamortized loans. Before the war amortization rates varied widely, and therefore maturities ranged from 15 to 56 years.

Advance payments in specified minimum amounts are permitted on three to six months' notice. The principal payments of borrowers are not accumulated in a sinking fund but are used immediately for debt reduction. In contrast to the Landschaften, the state and provincial banks have not allowed their borrowers to remain perpetually indebted by taking out new loans to the full or partial amount of the discharged portion of the mortgage debt. As far as the borrower is concerned, the bonds of state and provincial banks do not enter the repayment-plan picture because payment is practically always made in cash.[34] Retirement of bonds by lot if above par and by purchase in the market if below par is taken care of by the bank.

Private mortgage banks.—Before the war amortization and interest rates were such as to give noncallable loans a maturity of 56 and 60 years; after the war 0.5 percent amortization worked out to 44 years as long as the interest rate was 6 percent. Straight-term loans were given for periods of from 10 to 12 years before the war and from 5 to 6 years in postwar times. The shorter period was chosen because the banks did not wish to bind the borrower to the high interest rates prevailing after the war for any greater length of time than the minimum period acceptable to investors in bonds which were made noncallable for five years. The amount of straight-term loans to agriculture was and still is negligible. The Mortgage Bank Act (1899) prescribed that at least 50 percent of farm mortgage loans should be subject to amortization at a rate of not less than 0.25 percent. Occasionally, however, the private mortgage banks made loans repayable in annual installments of varying absolute amounts predetermined at the outset.

Although borrowers may pay advance installments, they can be made to agree not to exercise this privilege for 10 years. An advance installment must be large enough to shorten the maturity by at least one year. The term allowed for giving notice does not exceed nine months. If a borrower has repaid as much as one-tenth of the principal in accordance with the originally scheduled plan, he may ask the

[34] Except under the conditions explained on page 86, footnote 32. Also, a few banks permit advance payments in bonds after 10 years.

bank to give him a new amortization schedule carrying a smaller annual charge which may be even less than 0.25 percent but which must continue the original maturity period.

Since loans almost always are made in cash, amortization as well as advance payments on principal are also made in cash.[35] Thus any profit from purchase of the bank's bonds below par accrues to the bank rather than to the borrower. That they cannot allow mortgage debtors to use sinking fund accounts as security for new loans, a procedure possible in the case of Landschaft loan repayment, has placed the private mortgage banks at a competitive disadvantage.

Extension, receivership, and foreclosure [36]

It has been the usual Landschaft practice to grant a six-month extension after a payment is due, that is, until time for payment of the next installment. In rare instances extensions have been granted up to two years. Interest on arrears in principal and interest payments may be charged at a rate of 3 percent per annum above the rate which the Reichsbank is charging during that particular year for advances on securities, but the Landschaft is also authorized to fix lower penalty interest rates or none at all.

For obtaining recovery of defaulted payments, the Landschaften possess comparatively wide powers which they nevertheless strive to exercise in such a manner that the debtor can remain on the land while at the same time the claims of the Landschaft are satisfied. A law of 1897 authorized the Landschaften to institute sequestration or receivership proceedings without petitioning the courts. The absolute prerogative of the Landschaften compared with any other creditor is of great importance in establishing the gilt-edged security of Landschaft bonds. Moreover, it protects the mortgagor against claims filed by any other creditor and thereby protects to some extent the interests of all other creditors alike.

A farm may be administered in its entirety or in part by a Landschaft in case of default, violation of contract, or impairment of the property securing the mortgage. When the farm is turned over to an administrator, a detailed statement is drawn up describing its features, specifying the kind of agricultural uses to which the land has been put, the status of claims against the property, and liabilities to third parties. Each year the administrator submits a report to the Landschaft regarding income and expenses and recommends whether it appears that leasing the property would be advantageous. Usually a portion of the property providing some income is left for the owner-

[35] Except under the conditions described on page 86, footnote 32.

[36] The policies described in this section apply only insofar as they are not nullified by legislation previously discussed (Hereditary Farm Law, protection against foreclosure, moratoria, etc.)

debtor to live on. As soon as the claims of the Landschaft are satisfied, administration by its receiver is terminated. Frequently such trustee management results not only in satisfaction of Landschaft claims but also in clearing debts with other creditors and complete financial rehabilitation of the farm.

If additional extension is not warranted and the Landschaft decides that sequestration is not the solution to the delinquency, as a last resort it applies to the courts for permission to sell. Only mortgage register and records have to be presented and after accepting them as authentic, the court is required by law to order sale which as a rule is at auction. Sales proceedings of this kind usually are completed in a period of nine months. Redemption periods after sale during which properties may be bought back by the mortgagor are unknown in Germany.

Like the Landschaften, the state and provincial credit banks are granted special legal privileges for enforcement of their claims without recourse to usual civil procedure. The private mortgage banks, although they belong to the group of institutions authorized to issue bonds, lack this right of summary process.

Special Repayment Plans

Farm Mortgage Life Insurance Plan (*Tilgungsversicherung*)

Borrowers of many farm mortgage credit institutions have the option of taking out policies to the full amount of their debt with life insurance institutions approved by the lending agency. The latter is named as beneficiary, has custody of the policy, and uses the principal payments of the borrower or credits accumulated in his sinking fund account to pay the premium. As the unpaid principal of an amortization loan becomes less each year, the insurance premium is proportionately reduced. If the premium should exceed the annual amount of amortization involved, the borrower has to agree to raise the amortization rate of the mortgage loan accordingly. To be sure, if the debtor lives to repay the entire debt, the amortization or sinking fund method without insurance is probably somewhat cheaper, but simultaneous life insurance, although possibly more costly because of the risk involved, is more satisfactory as the debt is certain to be discharged. In the event of death or at a certain age of the debtor, the unpaid principal of the mortgage is covered by the lump sum due from the insurance institution and for his successor, the burden of inherited debt is removed in advance. Thus, the property is saved for the family without new indebtedness being incurred, nor is a new

owner compelled to contract a debt to settle the claims of coheirs. Before the war it was hoped that the result of the plan would be a gradual reduction of the aggregate outstanding mortgage loans, but such was not the case because the private life insurance companies were not interested in promoting this type of business.

Plans for the underwriting or reinforcing of mortgage debts in this fashion were launched by the Landschaft of East Prussia in 1909. Originally, Landschaft borrowers were supposed to take out life insurance policies and pay premiums in addition to the regular sinking fund payments due the Landschaft. However, owing to the refusal of private life insurance companies to lower their premium rates in favor of Landschaft borrowers, the total annual payments involved represented a larger than practicable share of the farm income. The Landschaft then proposed that the borrower's premium be reduced at least by the amount of the savings which the insurance companies would make if the Landschaft were to take care of premium collection for them through its organization. As the insurance companies were willing to make concessions in this respect only to a very limited extent and refused in addition to guarantee investment of a determined portion of their premium reserves in East Prussian Landschaft bonds, the Landschaft decided to create a life insurance institution of its own. The new institution was organized (1910) as a public nonprofit organization authorized to make use of the administrative machinery of the Landschaft and of the savings thus achieved for the purpose of premium reduction. The East Prussian Landschaft life insurance plan worked out to be much cheaper indeed and premiums were not required in addition to the amortization installments but simply replaced them.

Identical or similar principles were followed elsewhere in Germany and a number of public life insurance institutions have been created. Among them the institution "Bayern" (Bavaria), founded in 1922, is particularly interesting as it represents the result of collaboration between the savings banks and the agricultural cooperatives of Bavaria. In conjunction with the farm mortgage life insurance plan these institutions write ordinary life insurance for the general public and reinvest some of the funds thus accumulated in farm mortgages (see page 72).

The National Socialist Peasant's Organization (Reichsnährstand) has recently developed a new type of life insurance loan plan for young farmers. They receive a loan of 4,000 mark on personal security, free of interest, upon the condition that they take out a life insurance policy for the amount of the loan.

160556°—40——7

Amortization of Mortgages under the Law of 1906

A Prussian law of 1906 allowing the farmer by formal entry of a definite figure in the land ownership register (Grundbuch) to limit the maximum amount of mortgage indebtedness which his farm should carry henceforth was intended originally to slow down the growth of the national mortgage debt, because after the current debt was paid off, new mortgages in excess of the fixed limit could not be contracted.

Farmers were compensated for giving up the right to contract new mortgage debts by lower interest rates and the expectation that the greater equity held in the estate would result in more liberal provision of personal credit. As further inducement to make such registrations, more favorable property appraisals were made than was customary and 15 to 25 percent was added to the estimated value of the property of the registering debtor. This change was the beginning of a revision of the out-of-date appraisal policies of the Landschaften and actually gave only the consideration due to increased values. In addition, the maximum loan usually granted by the Landschaften was raised from two-thirds to five-sixths of the value of the land.[37] The additional credit margin created in these two ways could take the form of a new amortization loan financed by special 4-percent Landschaft bonds which were payable to the bearer and secured by a registered mortgage, by a sinking fund and other ordinary and special reserve funds. The German Reichsbank advanced two-thirds of the market value of these bonds, as was the practice with respect to mortgage bonds in general.

Landschaft debtors who accepted this plan were expected to pay an amortization charge of 0.5 percent on the amount of their mortgage debt remaining within two-thirds of the newly established value of the property, 2 percent on the amount beyond that limit, and 0.25 percent on that part of the new loan designated for productive improvements. After all second mortgages were thus refinanced, the first mortgage held by the Landschaft was paid off until reduced in amount to one-half of the valuation. Thereafter scheduled amortization would become optional as in the case of ordinary Landschaft mortgage loans. The plan was criticized on the ground that restriction of freedom to contract loans tends to lower sale prices since potential purchasers without the cash to pay the difference between the price and the fixed limit of indebtedness may not take out a mortgage to buy the farm.

Another difficulty interfering with general use of the plan was the inability of Prussian agriculture to agree upon the limits of indebtedness for registration. Moreover, it seemed to farmers that the need

[37] However, the maximum loanable could not be modified by more than one-fourth of the limit of indebtedness set by the farmer. Such modification, moreover, required permission of the authorities of the provinces upon recommendation by the credit institution and was admissible only for the purpose of meeting emergencies, such as succession by inheritance.

for such restriction of indebtedness was not so urgent as had been implied in the theoretical discussions preceding its trial. For these reasons, the plan has never gained practical importance.

Savings Bank Plan for Amortization of Mortgages Held by Private Individuals

Most of the mortgage loans made by private individuals are on a straight-term basis because as a rule they have a short duration and the average private lender dislikes accepting small annual amounts for amortization whose calculation is fairly complicated and which it is difficult to reinvest as advantageously as a large sum. On the other hand, there has been a complete reversal in the attitude of the savings banks in this respect. While before the war only 25 percent of the farm mortgage loans made by the savings banks was amortized, today amortization loans account for 63 percent. In fact, the banks endeavor to subject straight-term mortgage loans still outstanding to amortization. Among the various reasons given for this new approach that of trying to make fresh loanable funds available during the present period of credit stringency, particularly in the hereditary farm sector of agriculture, appears to be the most important. The savings banks go even farther by proposing that the comparatively large amount of straight-term mortgage credit granted by private individuals should be amortized without, however, affecting the private mortgage contract between borrower and lender. Instead of leaving the borrower at liberty throughout the duration of the contract to accumulate the amount required for payment in full wherever and whenever he pleases, he should be induced or compelled by law to deposit the annual amortization and advance payments on principal with a savings bank, which would calculate the annual amortization, administer this type of sinking fund for the borrower, and seek profitable and safe investment for it. The plan is not as yet in operation, but it is not unlikely that it will find the approval of many private lenders as it makes their loans considerably more secure. On this basis, private mortgage loans might be made for somewhat longer terms than heretofore and perhaps at lower interest rates owing to the reduction of risk.

Bibliography

I. Books and Monographs

AEREBOE, FRIEDRICH:

Beurteilung von Landgütern und Grundstücken. 2. Auflage, Berlin, Paul Parey, 1928.

Allgemeiner Deutscher Bankiertag, Mai 1938; Ansprachen, Vorträge und Teilnehmer. Berlin, Walter de Gruyter and Co., 1938.

AMERICAN COMMISSION AND UNITED STATES COMMISSION:

Agricultural Cooperation and Rural Credit in Europe. Information and Evidence Secured by the American Commission to Investigate and Study Agricultural Credit in Europe and the United States Commission to Investigate Rural Credit. U. S. Senate Document 214, Sixty-third Congress, First Session, 1913.

BERTHOLD, OTTO, and SEELMANN-EGGEBERT, E.:

Die Deutsche Rentenbank und die Deutsche Rentenbank-Kreditanstalt. Berlin, 1926.

Die Bestimmungen über die Deutsche Rentenbank-Kreditanstalt nach dem Stande vom 1. September 1937. Berlin, Reichsdruckerei, 1937.

BISSING, W. M. FREIHERR, von:

Der Realkredit der deutschen Landwirtschaft. Berlin und Leipzig, Walter de Gruyter and Co., 1930.

BRANDT, KARL:

Increase in Farmers' Indebtedness in Germany and New Methods of Individual Credit Control. Proceedings of the Second International Conference of Agricultural Economists, Cornell University, August, 1930. Menasha, George Banta Publishing Co., 1930.

BREITMEYER, ERWIN:

Der nachstellige Grundkredit. Band 2, "Deutscher Bodenkredit", Dr. Wilhelm Kalveram, editor. Berlin, Carl Heymanns Verlag, 1936.

CAHILL, J. R.:

Report to the British Board of Agriculture and Fisheries of an Inquiry into Agricultural Credit and Cooperation in Germany. U. S. Senate Document 17, Sixty-third Congress, First Session, 1913.

COHEN, JOSEPH L.:

The Mortgage Bank. London, Sir Isaac Pitman & Sons, Ltd., 1931.

DEUTSCHE GRUPPE DER INTERNATIONALEN AGRARKREDIT-KONFERENZEN:

Probleme des Agrarkredits. Deutsche Vorträge gehalten auf dem I. Internationalen Agrarkredit-Kongress in Neapel, Oktober 1938. Berlin, Herausgegeben von der Deutschen Gruppe der Internationalen Agrarkredit-Konferenzen im Deutschen Institut für Bankwissenschaft und Bankwesen, 1939.

DEUTSCHE RENTENBANK:

Die Deutsche Rentenbank (1923–1933).

DEUTSCHE RENTENBANK-KREDITANSTALT:

Die Kreditlage der deutschen Landwirtschaft im Wirtschaftsjahr 1936/37. (Sample study based on the records of 12,250 farms). Issues of *Die Kreditlage* for 1934/35 and 1935/36 also consulted.

Reply to Farm Credit Administration and United States Department of Agriculture *Joint Survey of Agricultural Indebtedness, March 1, 1938* made by the Deutsche Rentenbank-Kreditanstalt in cooperation with the Gemeinschaftsgruppe Deutscher Hypothekenbanken and the Reichsverband der deutschen landwirtschaftlichen Genossenschaften-Raiffeisen. [Typewritten original in German on file in the Farm Credit Administration.]

DEUTSCHE SIEDLUNGSBANK:
Richtlinien für die Neubildung deutschen Bauerntums vom 1. Juni 1935.

DRESCHER, LEO:
Entschuldung der Ostdeutschen Landwirtschaft. Berlin, Bank für Deutsche Industrie-Obligationen, 1938.

ELSTER, LUDWIG; WEBER, ADOLF, AND WIESER, FRIEDRICH, editors:
Handwörterbuch der Staatswissenschaften. Jena, Gustav Fischer, 1923.

GEMEINSCHAFTSGRUPPE DEUTSCHER HYPOTHEKENBANKEN:
The German Mortgage Bank Act of July 13, 1899, and the Development of Real Estate Credit in Germany. Berlin, 1926.

HERRICK, MYRON T., and INGALLS, RALPH:
Rural Credits. New York, D. Appleton and Co., 1928.

HERRMANN, ARTHUR R:
Zweihundert Jahre öffentliches Bankwesen. Berlin, Carl Heymanns Verlag, 1935.

HIPPEL, G., VON, KORD-RUWISCH, W., and SCHMIDT, FRANZ:
Die öffentlich-rechtlichen Kreditinstitute. Berlin, Carl Heymanns Verlag, 1927.

HOCHREIN, ERNST, and GÄDEKE, PH., editors:
Die deutschen öffentlichen Sparkassen. April 1938.

KALVERAM, WILHELM, editor:
Die deutschen Hypothekenbanken—Beiträge aus der Praxis. Band 3, "Deutscher Bodenkredit," Dr. Wilhelm Kalveram, editor. Berlin, Carl Heymanns Verlag, 1937.

KLEINER, ERNST-EBERHARD, and MICHAELIS, KURT:
Beleihungsgrundsätze für öffentlich-rechtliche Sparkassen nebst Wertschätzungsvordruck. Berlin, Deutscher Sparkassen- und Giroverband, 1938.

KOKOTKIEWICZ, GERHARD:
Vergangenheit, Gegenwart und Zukunft des Agrarkredits. Berlin, Carl Heymanns Verlag, 1934.

KRÜGER, HANS:
The Most Important Provisions from the Law Governing the Revaluation of Mortgages and Other Claims (Revaluation Law) of July 16, 1925. Digest issued by Hans Krüger, Special Commissioner for German Government loans at New York, November, 1925.

KUNZE, WALTER; SCHIPPEL, HANS, and SCHOELE, OTTO, editors:
Die deutsche Bankwirtschaft—Ein Schulungs- und Nachschlagewerk für das deutsche Geld- und Kreditwesen. Berlin, Verlag Der Betriebswirt.

LANDIS, WALTER S.:
An Engineer Looks at Inflation. Charlotte, N. C., 1933.

MADDEN, JOHN T., and NADLER, MARCUS:
Foreign Securities. New York, The Ronald Press, 1929.

MAUER, HERMANN:
Das landschaftliche Kreditwesen Preussens. Strassburg, Verlag von Karl J. Trübner, 1907.

MEIMBERG, RUDOLF:
Der Kredit des Erbhofs. Stuttgart und Berlin, Verlag W. Kohlhammer, 1938.

MELLEROWICZ, KONRAD:
Die öffentlichen Banken in der deutschen Bankwirtschaft. Berlin, Carl Heymanns Verlag, 1934.

MEYER, HANS, and STEIGER, HEINZ:
Einführung in das Recht der landwirtschaftlichen Schuldenregelung. Berlin, Verlag Franz Vahlen, 1936.

MÖSSNER, KARL EUGEN:
Das deutsche Bodenkreditsystem. Band 1, "Deutscher Bodenkredit", Dr. Wilhelm Kalveram, editor. Berlin, Carl Heymanns Verlag, 1934.
Das landwirtschaftliche Geschäft der Hypothekenbanken. Berlin, Carl Heymanns Verlag, 1937.

PALYI, MELCHIOR:
Principles of Mortgage Banking Regulation in Europe. Chicago, University of Chicago Press, 1934.

PALYI, MELCHIOR, and QUITTNER, PAUL, editors:
Handwörterbuch des Bankwesens. Berlin, Julius Springer, 1933.

Das Reichsgesetz betreffend die Erwerbs- und Wirtschaftsgenossenschaften (Genossenschaftsgesetz) vom 1. Mai 1889 in der jetzigen Fassung (1.5.1938). Neuwied, Genossenschaftsdruckerei Raiffeisen m. b. H. [1938].

ROSE, MINISTERIALRAT:
Aufbau und Verwaltung der preussischen landschaftlichen Kreditinstitute. Berlin, Reichsnährstand Verlags-Ges. m. b. H., 1937.

ROTHKEGEL, WALTER:
Handbuch der Schätzungslehre für Grundbesitzungen. Berlin, Paul Parey, 1930.

ROTHKEGEL, WALTER, and HERZOG, HEINRICH:
Das Bodenschätzungsgesetz. Berlin, Carl Heymanns Verlag, 1935.

SCHRAUT, RUDOLF, editor:
Die Sparkassen Praxis—Ein Unterrichtswerk. Berlin, Verlag Reimar Hobbing.

SERING, MAX:
Deutsche Agrarpolitik auf geschichtlicher Grundlage. Leipzig, Hans Buske Verlag, 1934.

TORY, H. M.:
Report on Agricultural Credit. Ottawa, F. A. Acland, 1924.

TSCHERKINSKY, M.:
The Landschaften and their Mortgage Credit Operations in Germany, 1770–1920. Rome, International Institute of Agriculture, 1922.

VERBAND DEUTSCHER ÖFFENTLICH-RECHTLICHER KREDITANSTALTEN e. V.:
Mitgliederverzeichnis der Wirtschaftsgruppe öffentlich-rechtliche Kreditanstalten.

WEYERMANN, M.:
Zur Geschichte des Immobiliarkreditwesens in Preussen. Karlsruhe, Freiburger Volkswirtschaftliche Abhandlungen, Band 1, Ergänzungsheft 1, 1910.

WILLIS, H. PARKER, and BECKHART, B. H.:
Foreign Banking Systems. New York, Henry Holt and Co., 1929.

II. Periodical Articles

AEREBOE, FRIEDRICH:
Value of Landed Property. International Institute of Agriculture, Bulletin of Bureau of Intelligence and Plant Diseases, Vol. 3, No. 11, November, 1912.

Bauer, Wilhelm, and Dehen, Peter:
Landwirtschaft und Volkseinkommen. Institut für Konjunkturforschung, Vierteljahrshefte zur Wirtschaftsforschung, N. F. 13. Jahrgang, Heft 4, 1938/39.

Beckmann, Fritz:
Kreditpolitik und Kreditlage der deutschen Landwirtschaft seit der Währungsstabilisierung. Reichsministerium für Ernährung und Landwirtschaft, Berichte über Landwirtschaft, Band 4, Heft 1, 1926.

Brandt, Karl:
The Crisis in German Agriculture. Foreign Affairs, Vol. 10, No. 4, July, 1932.
Land Valuation in Germany. Journal of Farm Economics, Vol. 19, No. 2, February, 1937.

Costanzo, Giulio.
Agricultural Indebtedness. International Institute of Agriculture, Monthly Bulletin of Agricultural Economics and Sociology, Vol. 28, Nos. 1–4, January–April, 1937.

Foag, A.:
Pacht und Pächterkredit. Recht des Reichsnährstandes, 6. Jahrgang, Heft 3, Februar, 1938.
Siedlung und Siedlungsfinanzierung. Recht des Reichsnährstandes, 6. Jahrgang, Heft 5, März, 1938.

Galbraith, J. K.:
Hereditary Land in the Third Reich. Quarterly Journal of Economics, Vol. 53, No. 3, May, 1939.

Institut für Konjunkturforschung:
Agrarpolitik und Agrarkredit. Institut für Konjunkturforschung, Vierteljahrshefte zur Konjunkturforschung, 9. Jahrgang, Heft 1, April, 1934.

Kokotkiewicz, Gerhard:
Der Immobiliarkredit. Institut für Konjunkturforschung, Vierteljahrshefte zur Konjunkturforschung, Sonderheft 30, 1932.

Michaelis, Kurt:
Die Neufassung der Beleihungsgrundsätze für das Realkreditgeschäft der Sparkassen. Sparkasse, 57. Jahrgang, Heft 24, Dezember, 1937.

Mössner, Karl Eugen:
Hypothekenbanken. Wörterbuch der Wohnungs- und Siedlungswirtschaft. Sonderdruck. [September] 1938.
Hypothekenbanken und Amortisationsprinzip. Der deutsche Ökonomist, Nr. 36, September, 1934.

Rothkegel, Walter:
In welcher Weise können die Ergebnisse der alten Grundsteuereinschätzungen für die Zwecke der Veranlagung zur Reichsvermögenssteuer nutzbar gemacht werden? Reichsministerium für Ernährung und Landwirtschaft, Berichte über Landwirtschaft, Band 2, Heft 3, 1925.

Rothkegel, Walter, and Herzog, Heinrich:
Das Verfahren der Reichsfinanzverwaltung bei der Bewertung landwirtschaftlicher Betriebe. Reichsministerium für Ernährung und Landwirtschaft, Berichte über Landwirtschaft, Sonderheft 10, 1928.

Sohn, Friedrich:
Allgemeine agrarpolitische Berichte. Reichsministerium für Ernährung und Landwirtschaft, Berichte über Landwirtschaft, Band 21, Heft 2, 3, 4, 1936/37; Band 22, Heft 1, 2, 4, 1937/38; Band 23, Heft 2, 4, 1938; Band 24, Heft 2, 1939.

SPIEGEL, HENRY W.:
The Altenteil: German Farmers' Old Age Security. Rural Sociology, Vol. 4, No. 2, June, 1939.

STATISTISCHES REICHSAMT:
Die Erbhöfe im Deutschen Reich. Wirtschaft und Statistik, 19.Jahrgang, Nr. 5, März, 1939.

STEWART, CHARLES L.:
Some Aspects of Land Appraisals Abroad. Journal of the American Institute of Real Estate Appraisers, Vol. 2, No. 2, April, 1934.
Increasing the Accuracy of Farm Appraisals in European Countries. University of Illinois, Agricultural Experiment Station Bulletin AE–993, November, 1938.

U. S. BUREAU OF AGRICULTURAL ECONOMICS:
New German Land Ownership Law, U. S. Bureau of Agricultural Economics, Foreign Crops and Markets, Vol. 28, No. 3, January 15, 1934.

WILDEN, HANS:
Landwirtschaftliche Schuldenregelung. Deutsche Sparkassen-Zeitung. Sonderdruck. Februar, 1934.

III. Annual Reports—Statutes

Bayerische Hypotheken- und Wechsel-Bank. Geschäftsbericht 1937.

Central-Landschaft für die Preussischen Staaten. Geschäftsberichte 1935–37.

Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft. Geschäftsbericht 1937.

Deutsche Landvolk-Bank Aktiengesellschaft zu Berlin. Geschäftsberichte 1933–37.

Deutsche Pachtbank e.G.m.b.H. Geschäftsberichte 1933–38.

Deutsche Rentenbank. Verwaltungs- und Geschäftsberichte 1924–37.

Deutsche Rentenbank-Kreditanstalt (Landwirtschaftliche Zentralbank). Verwaltungs- und Geschäftsberichte 1925–37.

Deutsche Siedlungsbank. Geschäftsbericht 1935.

Deutsche Sparkassen und Girozentralen. Geschäftsberichte 1937–38.

Gemeinschaftsgruppe Deutscher Hypothekenbanken. Geschäftsbericht 1937.

Reichsverband der deutschen landwirtschaftlichen Genossenschaften-Raiffeisen-e. V. Jahrbuch 1937.

Grundsätze für die Wertermittelung von Grundstücken, die bei der Landschaft der Provinz Sachsen zur Beleihung angemeldet worden sind. Ausgabe Mai 1931.

Satzung der Central-Landschaft für die Preussischen Staaten—Februar/März 1931–März 1937. Berlin, Bernhard Paul.

Satzung der Deutschen Genossenschafts-Hypothekenbank Aktiengesellschaft zu Berlin. Preussische Druckerei- und Verlags, A.-G., 1938.

Satzung der Märkischen Landschaft. In Kraft getreten am 1. April 1934.

Statut der Central-Landschaft für die Preussischen Staaten vom 21. Mai 1873 nebst Nachträgen. Berlin, Bernard Paul.

O